

OVERSEAS NEWS

Britain steps up pressure for end to EEC trade barriers

BY WILLIAM DAWKINS IN BRUSSELS

BRITAIN will try to put severe pressure today on its 11 EEC partners to agree to a package of measures to scrap trade barriers between community member-states.

The community trade ministers will gather in Brussels this morning to start what promises to be a marathon negotiating session over 18 steps towards the creation of a free internal European market.

The list, selected by the UK, covers a disparate but in many cases crucial range of proposals. They include the opening up of public purchasing to other EEC states, the establishment of common standards for telecommunications and information technology, and the protection of micro-circuit design copyright.

next year, when the introduction of the European Single Act will permit more majority voting.

This follows a period of frenetic diplomatic activity by a British Government keen to improve on the disappointing progress it has made as EEC chairman in lifting common market barriers — and painfully aware that today might be the last chance to make headway on the issue before its presidency runs out at the end of the year.

In the past week Mr Clark, Lord Lucas, a parliamentary under-secretary of state at Britain's Department of Trade and Industry, and a senior EEC official, have visited Bonn, Rome, Copenhagen, Athens and Madrid in a bid to cajole member-states into sacrificing their national objections to today's proposals.

Erasmus project abandoned

BY QUENTIN PEEL IN BRUSSELS

A POPULAR plan to promote student exchange between member states of the EEC, intended to bring home the relevance of the Community to ordinary people, has been abandoned in a welter of recriminations in Brussels.

drawn by the European Commission, after it became obvious that EEC education ministers were unable to agree on its financing, its duration, or even the legal basis on which it would be carried out.

Chirac in climbdown over universities

By David Motsego in Paris

MR JACQUES CHIRAC, the French Prime Minister, has tonight offered to modify the Government's controversial university legislation to meet the criticisms of students and university teachers opposed to the Bill.

In a television broadcast, Mr Chirac proposed a week to 15 days of consultation during which the Bill could be amended before being submitted again to the national assembly.

BRITAIN BACKS HYPERSONIC AIRCRAFT PLAN

BY DAVID MARSH IN BONN

WEST GERMANY is laying plans to forge ahead in the space race of the next century — based on ideas drawn up during the Second World War for a rocket-powered aeroplane to bomb US cities.

An ambitious project to develop the so-called Saenger two-stage space aeroplane has been backed during the last year by DM 2.5m (£894,000) from the Bonn Government and Messerschmitt Boeing Blohm (MBB), the country's largest aerospace company.

Paris nears Norway gas decision

By Max Wilkinson, Resource Editor

THE FRENCH Government is expected to announce tomorrow whether it will cancel its contract for a share in the \$60bn (£42bn) purchase of gas from the giant Troll field in the Norwegian sector of the North Sea.

France was demanding a guaranteed share of the contract work, which the Norwegian authorities were unwilling to concede, Troll is the largest gas field in Europe.

Italy may face early election

BY JOHN WYLES IN ROME

ITALY MOVED closer towards early elections at the weekend when the leadership of the Republican Party threatened to withdraw from the five-party coalition government next spring.

Claiming that the members of the present government were not able to agree on anything after March 1987 unless there is a profound and radical rethink of policies.

IG Metall seeks hours cut

THE West German engineering union IG Metall said yesterday it would seek to cut the working week from 38.5 to 35 hours for the same pay in talks with employers next month, Reuter reports.

IG Metall leaders said the 2.7m member union would present these demands today to all employers, including the West German motor industry. The union brought the industry to a standstill in 1984 with a seven-week strike for a 35-hour week. Finally hours were cut by 30 minutes to 38.5 hours under an 18-month agreement that has now expired.

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Kremlin anti-corruption drive

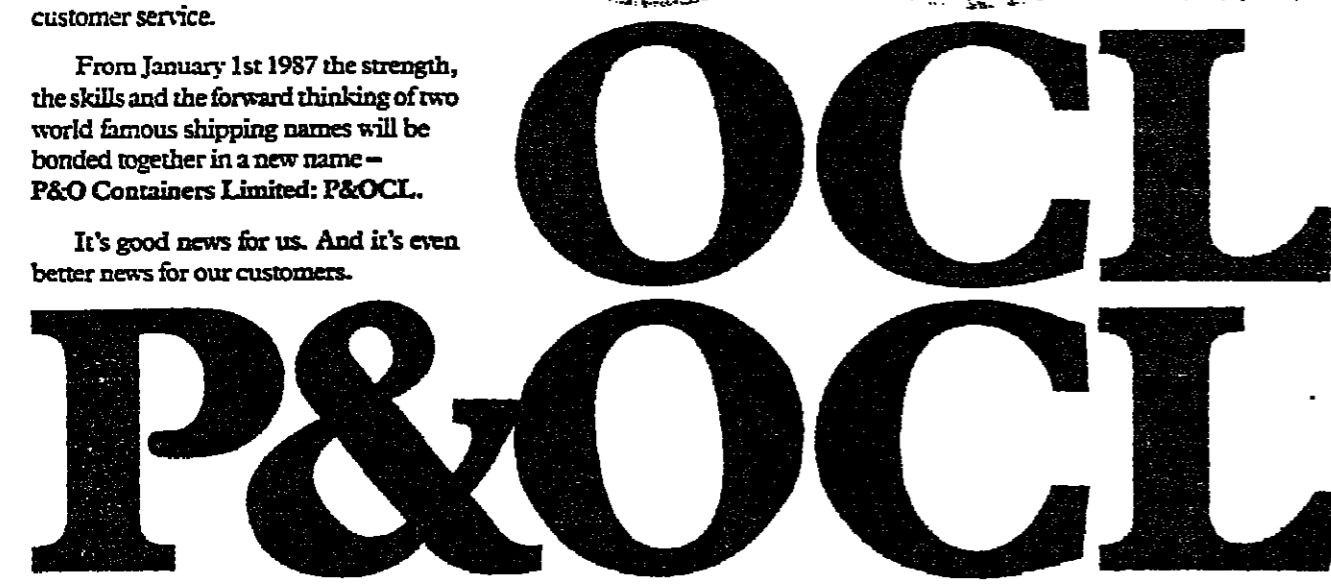
SOVIET leaders have ordered a crackdown on abuses in the country's police force and judiciary as part of a drive by Mr Mikhail Gorbachev, the Soviet leader, to root out corruption and reform Soviet society, Reuter reports from Moscow.

The decree appeared to signal the resumption of an anti-corruption campaign initiated by Mr Yuri Andropov, the former Soviet leader, who sacked Mr Nikolai Shekolov, the long-serving Interior Minister, in 1982 at the start of a drive to clean up the law.

It is the first time that a senior minister has publicly criticised collaboration in terms long voiced by Mr Raymond Barre, the former Prime Minister.

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Argentina ready to reform the public sector

BY TIM COONE IN BUENOS AIRES

ARGENTINA is shortly to introduce public sector reforms aimed at improving efficiency and reducing costs in both central government and state-run enterprises.

The Government has long considered the reforms as a necessary complement to its anti-inflation strategy and its long-term goal of carrying out a structural reform of the economy. Partial finance for the changes is expected to come out of a World Bank structural adjustment loan of \$450m (£244.15m).

In a television speech at the weekend, President Raul Alfonsín said the reforms would cover three main areas: a reduction of central government employment, an overhaul of the public sector wage structure and a reorganisation of state-run companies.

Public sector employment is to be reduced by 20 per cent in the next three years. President Alfonsín insisted there would be no compulsory lay-offs. Workers accepting voluntary redundancy would receive a lump sum of Australas 3,500 (£2,071) plus a continuation of salary for between six and 12 months depending on length of employment.

Unification of salary scales in the state sector is to be introduced eliminating inter-industrial differences which have caused many labour disputes.

At the same time, those at the upper end of the salary scale are to be given big increases in a move to attract and keep better-trained workers. Smaller adjustments for the lower paid will be used as an incentive to persuade semi-skilled and unskilled employees to accept voluntary redundancy.

Meanwhile, many state-run enterprises are to be put under the control of a new holding company headed by a ten-man management board to be drawn primarily from the private sector. The Public Works Minister would absorb about 290,000 employees, a turnover of \$7bn a year and losses of several hundred million dollars per year.

The management board and an overseeing inter-ministerial committee will set planning guidelines for the state sector companies, which in future will be expected to be run on more profitable lines.

Until now there has been little co-ordination between the state-run enterprises. Management in the past has been dictated more by politics than economics.

President Alfonsín met Mr Saul Ubaldini, head of the powerful General Confederation of Workers, last Friday in an attempt to renew talks between the government and unions which broke down earlier this year because of differences over the Government's economic policies.

President Alfonsín said later: "I am convinced we are going to begin a new dialogue." But he warned: "It will have some difficult facets and at times will border on conflict." The workers' considerations has organised seven 24-hour general strikes against the Government in its three years in office.

Court gives go-ahead for Bhopal hearings

By John Elliott in New Delhi

TWO YEARS after a lethal gas leak in the central Indian city of Bhopal claimed more than 23,000 lives and disabled between 30,000 and 40,000 people, the Indian Government and Union Carbide last night cleared the way for court hearings on compensation claims totalling \$30m (£20.9m) to begin next month.

The Bhopal District Court ruled that Union Carbide could go ahead with financial restructuring it had been planning for its international operations, having received its assurance that it would maintain unencumbered assets totalling \$30m. This is the figure that 10 days ago the Government said was the total of compensation claims it was handling collectively for about 520,000 people.

Official and legal delays and wrangles have taken up most of the time since the gas leaked on December 3 1984 from Union Carbide's pesticides plant, leaving a trail of death and injury in its wake.

Now the two parties are to file written statements on their counter claims about responsibility for the accident. January 12 has been set as the day when the main legal hearings will begin in Bhopal, possibly lasting for several months.

The Government is claiming against Union Carbide's international parent company in the US. But the company has responded first by saying the accident was caused by an employee's act of sabotage and then by seeking to place the blame on the central Indian Government and the state government of Madhya Pradesh, of which Bhopal is the capital.

Financial restructuring and asset disposal plans drawn up by Union Carbide to strengthen its base in the wake of its successful defeat last January of a takeover bid from Gaf made the Indian Government suspect that the group's international assets would be run down to such an extent that it would not be able to meet compensation awards.

This led the Government first to ask for an order blocking the company's plans and then to name \$30m as the claims figure. Yesterday in private negotiations in front of the Bhopal court judge, Union Carbide agreed to let two valuers chosen by the judge examine its assets over three months to ensure they have not fallen below the agreed figure.

But the company has stressed that its acceptance of the \$30m figure does not amount to an admission of liability.

Sikh militants pulled passengers off a bus in Punjab yesterday and shot dead 22 Hindus, Reuter reports from Chandigarh.

Police said the attack was the largest number of deaths in a single terrorist attack in the troubled state.

CABINET BRIEFED ON TEHRAN LINKS

Israeli arms salesman admits hostage role

BY ANDREW WHITLEY IN JERUSALEM

A KEY Israeli middleman in the shipment of US-made arms to Iran has acknowledged acting as intermediary in successful efforts last year to secure the release of an American hostage being held in Lebanon.

Col Yehosh Nimrodi, an arms dealer who served as an Israeli military attaché in Tehran during the 1970s, said he and others he did not name had intervened with "certain elements in Tehran." This followed a meeting in Israel with a top government official, at which he had been asked to use his good offices.

As a result of their efforts, the Rev Benjamin Weir was freed in September 1985 by his captors, the pro-Iranian fundamentalist group Islamic Jihad.

In a statement to Ha'aretz, the Israeli daily, Mr Nimrodi said that after the release of the American clergyman he and his associates were requested to stop handling the issue. Who made this request is not specified—but the implication is that it came from the Israeli Government.

The full coalition Cabinet was yesterday briefed for the first time by the "Iran Troika"—Mr Yitzhak Shamir, the Prime Minister, Mr Shimon Peres, Foreign Minister, and Mr Yitzhak Rabin, the Defence Minister—on the country's arms dealings with the Khomeini regime. No details of the discussions were revealed.

But given the hostile public positions adopted in recent days by several senior ministers, the debate is likely to have been highly acrimonious.

Questions will have focused in particular on the allegations that profits from the Iranian arms sales went to fund the US-backed Contra rebels fighting the Nicaraguan Government.

Israeli officials continue to insist that the Government was unaware of any dealings with the Contras. However, yesterday's Ha'aretz quotes an unnamed senior government official as blaming Israeli middlemen for "meddling" in the Swiss bank account set up to handle receipts from the Iranian arms sales.

Mr Yehosh Nimrodi, the Cabinet Secretary, said yesterday he had no idea whether the



FORMER nuclear technician Mr Mordechai Vanunu (left), accused of espionage and treason for telling a British newspaper Israel was producing atomic weapons, appeared in public yesterday for the first time in two months. Reuter reports from Jerusalem.

Mr Vanunu, 31, appeared under heavy guard at Jerusalem district court for a closed-door hearing to re-open him in custody until the end of his trial. The court put off the hearing after his lawyer, Mr Amnon Zichroni, demanded the proceedings take place in public. No new date was set.

minent Israeli businessman being linked to the arms affair, Mr Al Schwimmer, are understood to be pressing for an official clarification from Jerusalem on their claim that their part in the transactions ended soon after Mr Peres became Prime Minister in September 1984.

Liaison between the Peres Government and the White House over the arms subterfuge is believed to have subsequently been handled in Jerusalem by Mr Amiram Nir, who held the shadowy post of counter-terrorism adviser to the Prime Minister.

Mr Nir has retained his post under Mr Shamir, who took over the coalition Government in October, but his departure may not be long coming.

Even before the Iranian arms scandal broke in the US, Mr Shamir is known to have wanted to replace Mr Nir with a Likud sympathiser, Mr Benjamin Netanyahu, currently serving as Israel's Ambassador to the UN, in a beefed-up terrorism department within the Prime Minister's Office.

Nimrodi statement was accurate or not. He repeated that everything Israel had done had been in accordance with requests from the US Government "through authorised spokesmen."

What appears to have provoked the arms dealer into

breaking his silence is a combination of the US Justice Department's investigations into the handling of the Iranian arms transactions and, in Jerusalem, continued stone-walling by the Israeli Government on the entire imbroglio.

Mr Nimrodi and another pro-

S Africa trust aims to tackle black housing backlog

BY ANTHONY ROBINSON IN JOHANNESBURG

SIX MONTHS after the South African government abolished influx control and opted for a policy of "orderly urbanisation", a new housing trust has been created in which government and private business will provide up to R1.2bn to finance cheap housing.

The new trust, called the South African Housing Trust Limited, will be chaired by Dr Fred Du Plessis, chairman of Sanlam, the largest Afrikaans insurance and industrial group.

The government will inject R400m into the trust and will take up 1,000 of the 10,000 one-and-a-half room shares with private companies subscribing to the remainder. The trust will issue loan stock through the Johannesburg Stock Exchange.

The scrip will be given

"prescribed status," thus qualifying for inclusion in the obligatory deposits required from banks and financial institutions and will be market-related. Both interest and capital repayment will be guaranteed by the state. The intention is to raise at least R800m over the next three years.

The aim of the trust is to

finance a largely self-build housing programme for low-income houses for all racial groups, although the bulk of funds is expected to be allocated to blacks who only this year have been granted freehold property rights.

By conservative estimates, the existing backlog in black housing, after decades of governmental refusal to build

more black homes in "white" South Africa, is at least 600,000 units.

As part of its unemployment relief programme, the Department of Manpower and Training has trained more than 74,000 unemployed workers in basic building skills over the past 18 months.

The trust is expected to begin by granting bridging loans

Tokyo finance deal agreed as Mexican leader flies in

BY DAVID GARDNER IN MEXICO CITY

PRESIDENT Miguel de la Madrid of Mexico arrived in Tokyo yesterday on a state visit sweetened by an agreement last Friday on \$1bn (£687m) in project finance to be provided by Japan Eximbank.

The visit is part of a two-week tour of Japan and China designed to increase Mexico's trade and investment flows with the Far East and emphasise that Asia is a Pacific nation.

Japan is Mexico's second largest trading partner and former creditor after the US and third largest foreign investor after the US and West Germany.

Mexico-Japan trade has totalled about \$2.5bn a year since 1981—about a tenth of trade with the US and half the value of Mexico-EEC trade—but with the balance moving from rough equilibrium to a \$1bn surplus in Mexico's favour.

Japan imports oil (about 180,000 b/d) and silver from Mexico, to which its main sale is capital goods.

Japanese foreign investors have a strong presence in sec-

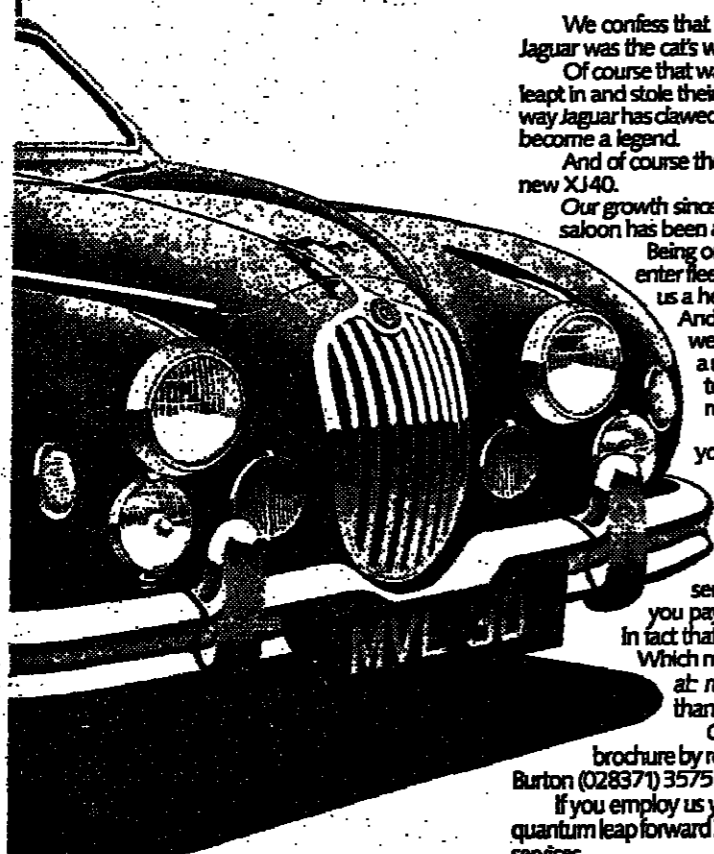
tors ranging from cars (Nissan) to tobacco (Nisschoeywai), and an increasingly visible presence in tourism. The \$100m Hotel Nikko in Mexico City is close to completion and Japanese interests are looking at the possibility of a \$200m resort development in Baja California, the peninsula below California.

Japanese commercial banks are owed over \$11bn of Mexico's foreign debt, which by the end of this year will exceed \$100bn. Last Friday, Mexican Treasury and Japanese Eximbank officials signed protocols for a further \$1bn in project loans for Mexico.

Half is for the completion of an oil pipeline from the Atlantic to the Pacific with storage and loading facilities at both ends. \$260m is for the completion of the Sicarta steel mill complex, also on the Pacific coast; and the balance is to support Mexico's non-oil export drive.

Mexican trade with China has more than doubled this year but still amounts to less than \$150m.

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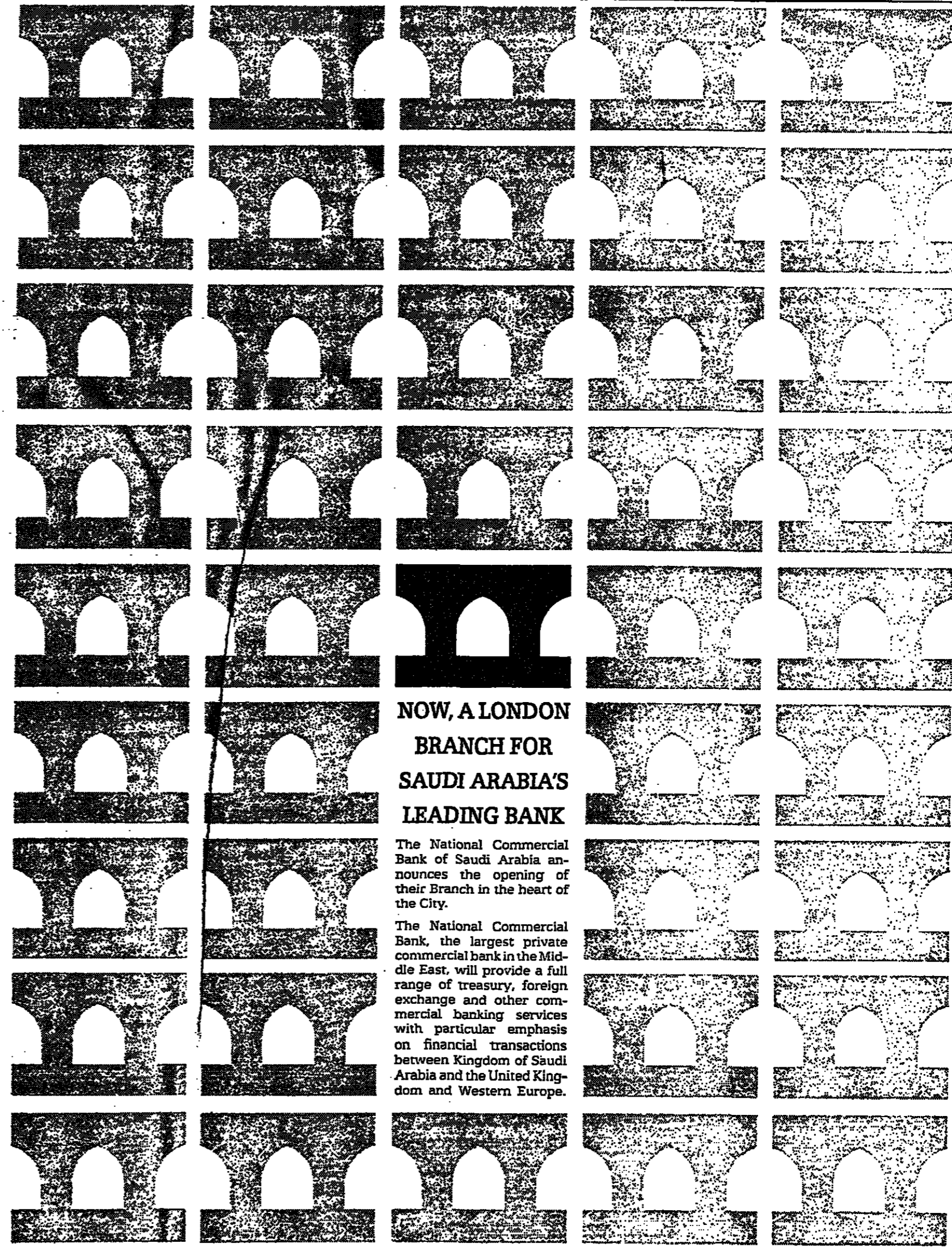
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OVERSEAS NEWS

Opposition figure fails in bid to reach Taipei

By Robert King in Taipei
A LEADING Opposition figure failed in his attempt to return to Taiwan yesterday after the airline on which he had booked his flight refused to allow him to board.
Mr Hsu Hsin-liang, an outspoken critic of the Taiwan Government, has spent the past several years in the US after being convicted in absentia of treason.
The Government has charged Mr Hsu with a former elected official, with dereliction of duty after a riot sparked by allegations of election fraud on the part of Nationalist Government officials erupted in his constituency in 1977.
Mr Hsu is seeking to return to Taiwan during the run-up to December 2 elections for supplementary seats in Parliament and the National Assembly.
Many, both within the ruling Nationalist Party and the newly formed quasi-legal Democratic Progressive Party, feared that Mr Hsu's presence during the campaigning and elections might destabilise the process.
Should he land in Taiwan, Government would have no choice but to arrest him or deny him entry. These options could easily spark demonstrations.

Police close off central Seoul

By A Special Correspondent
MORE THAN 70,000 riot police closed off central Seoul at the weekend to suppress a demonstration called to support constitutional change in South Korea.
The demonstration had been called by the country's main opposition group, the New Korea Democratic Party (NKDP), to press for the direct election of the president, and to regain the political initiative as a strong challenger to the Government.
But the government of President Chun Doo Hwan went to extraordinary lengths to see that few, if any, could attend the rally.
Taxi drivers were told not to take young people to central Seoul; underground stations in the vicinity of the proposed demonstration site were closed; and tear gas was liberally used to break-up groups near the school.
Opposition political leaders were also restrained from attending the demonstration. South Korea's best-known dissidents, Mr Kim Dae Jung and Mr Kim Young Sam, were held under house arrest, while the NKDP's president, Mr Lee Min Woo, and a group of opposition MPs were not permitted to leave the party's headquarters.
The government had warned last week that it would not permit the demonstration to take place. It said that radical and Communist elements would create violence, and it promised tough action. Nearly 2,000 people who tried to attend the rally were detained.
Western diplomats in Seoul said yesterday it was not the government's action which was of greatest concern to them, but that its repercussions could lead to an even greater polarisation of political opinion than already exists in South Korea. This in turn, they said, could lead to a growth in civil unrest.
During the spring, the opposition successfully held rallies in provincial capitals to win the right for South Koreans to sign a petition supporting constitutional change. It had hoped that the latest demonstration would be a turning point in this campaign.
"Though we failed to hold the rally, we will hold one in the near future," Mr Hong Sa Duk, the NKDP's spokesman said. "It would be ridiculous if the government insists on claiming victory."
But Mr Hong's words disguised divisions within the NKDP and the fact that its image has been undermined by a series of incidents during the autumn which the government has been able to use to discredit it with South Korea's growing and conservative middle class.

Angela Dixon on some unexpected turns during one of the Arab world's largest international events
Dubai in dramatic leap on to the world chess stage

HUGE plywood chess pieces line the streets. Almost overnight, it seemed, Dubai's largest roundabout sprouted a landscape of hills and valleys, covered with instant lawns and petunias.
The event is the 27th Chess Olympiad—possibly the largest sporting occasion, with over 1,000 participants, to be staged in the Arab world. It was also the venue for the election of the next president of the International Chess Federation.
Dubai is no stranger to international sporting events—the annual horse show attracts top riders from all over the world—and it has welcomed the Olympiad with open arms, filling the huge hangar-like halls of the trade centre with chess tables and laying on thrice-daily television broadcasts, plus a round-up of the outstanding games every evening.
In return, the tournament has supplied an abundant crop of drama and surprise, including the unusual spectacle of the Soviet team not only drawing in its matches against Yugoslavia and England, but even losing some games. This was in spite of its heavyweight team, which includes world champion Kasparov and the three other top-ranking Soviet players, Karpov, Seleznev and Yusupov.
Another surprise was the unexpected victory of the Spanish over the English team. England had succeeded against all the other strong contenders, and had gained a clear lead by the



Gary Kasparov contemplates his next move

end of the sixth round. Victory against the Spaniards seemed sure, but the latter's win, with 3½ to England's 1, was, in the words of Nigel Short, "devastating."
After the match, Tony Miles declared on local television that he was going off to get drunk. He later—soberly—admitted: "The Spaniards played brilliantly, and we played badly."
Further drama ensued when the England team lodged a formal complaint against the Spanish team's Russian coach, on the grounds that he had advised a member of the team on a move after a draw had been offered by the English opponent.
With only one day to go, the England team are still among the first three, with the US and Soviet Union. For the first time

ever, the Soviets have not had a walkover at this Olympiad.
The organisers have managed this large-scale event with great success and the opening ceremony in particular was a brilliantly staged occasion with spectacular fire works and a chess game played with live chess pieces. There have, however, been criticisms.
There were some red faces when the powerful and respected Shaikh Mohammed bin Rashid al-Maktoum, best known in Britain perhaps as an enthusiastic and knowledgeable racehorse owner, publicly carpeted the organisers. Some of these, he claimed, were seeking publicity for themselves without regard to the interests of the UAE in general and Dubai in particular.
The UAE has some very strong chess players. These include a young Junior World Champion from Dubai, Nasr Ahmed Saeed, and his brother, Saeed Ahmed Saeed, who unaccountably failed to be included in the UAE team. The team did not come anywhere near the top in the tournament results. The Shaikh had some words to say on that subject, too.
Criticism from other quarters came mainly from the hotel industry, which was taken aback at the low rates imposed by the government for room-mates chargeable to the chess teams and delegates. This is at a time of year usually accounted

Dubai is no stranger to international events and it has welcomed the Olympiad with open arms. In return, the tournament has provided an abundant crop of drama and surprise

among the busiest for hotels in the Gulf.
One or two hotels said they were glad to make their contribution to the event. Some, however, were not used by the visiting chess teams.
If the outcome of the Olympiad was still unclear, right up to the last moment, the result of the International Chess Federation (FIDE) presidential election has been no cliffhanger. The Brazilian candidate, Lincoln Lucena, unexpectedly stepped down at the last moment in favour of his rival—the sitting candidate Florencio Campomanes, in spite of the vigorous lobbying throughout the fortnight by Lucena's supporters.
The fact that Dubai has been the setting for the Chess Congress has been helpful to Mr Campomanes' strong candidacy. Dubai openly declared its support "for" at the outset of the Olympiad.

The high attendance of third world delegations was another factor in his favour. Many of these might not have been here but for the generosity of the Dubai Government, which donated airline tickets to an estimated value of \$100m (£71m). Most of them were considered likely to give Campomanes their vote.
The ban on Israel participation also gave a boost to Campomanes' hopes, since Israel might have been expected to vote against him, while the consequent protest withdrawal from the event of the Scandinavian teams and others can have only further strengthened his hand.
Although Gary Kasparov openly opposed his re-election, the official Soviet stand was in favour of the Filipino.
One further contest, however, remains. This is the vote which FIDE is expected to take on future policy regarding the expansion of teams on political grounds. If the vote endorses this policy, it will mean that Israel, among others, may be banned from future Olympiads.
Whatever their feelings on individual countries' politics may be, a number of nations, notably the US, would be unhappy at the application of the principle of exclusion on political grounds. The outcome of the vote on this motion, therefore, could seriously affect the future of international chess and its result is awaited with interest.

New Delhi trade deficit down 18%

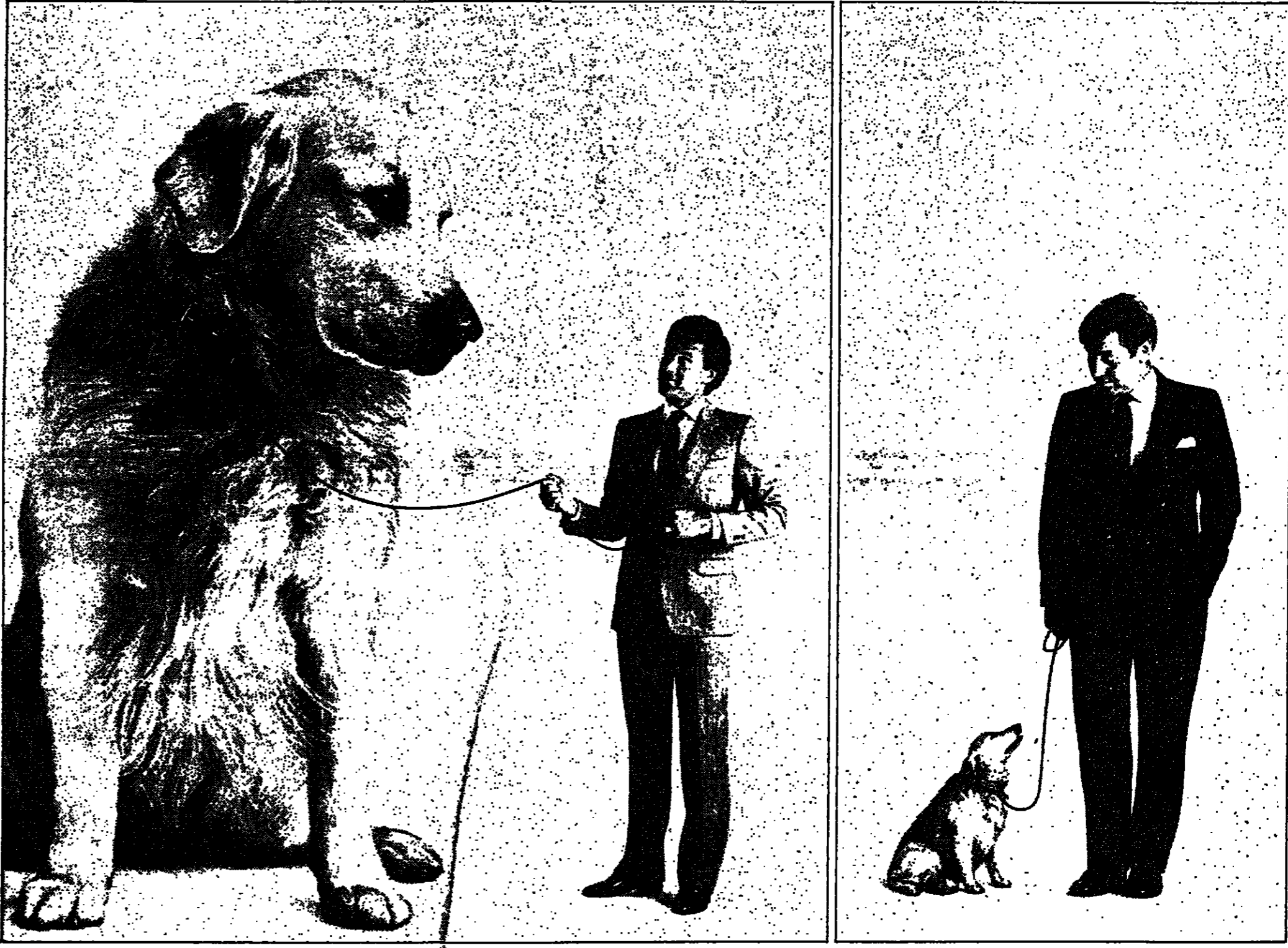
By John Elliott in New Delhi
INDIA'S trade deficit fell by 18 per cent to Rs 33.81bn (£1.9bn) in the first six months of the current financial year to the end of September, compared with the same period last year.
This follows a 66 per cent increase in the deficit during the whole of 1985-86 which caused considerable concern about the country's balance of payments problems in the next few years.
But exports have recovered and rose during the first six months this year to Rs 58.57bn, nearly 17 per cent above Rs 50.17bn in the same period last year. Imports rose by only about 1 per cent to Rs 92.39bn from Rs 91.41bn.
During the past few months, the Government has introduced a range of export incentives which the Ministry of Commerce claims are producing results.
© BMW of West Germany has become the latest foreign motor manufacturer to sign a production collaboration with an Indian company. Its partner is Bharat Gears of New Delhi, one of the Ramnag Singh family companies.
They are waiting for the Government to announce a new motor production policy which will determine whether or not their collaborations go ahead.

SHIPPING REPORT
Sharp fall in merchant tonnage

By Kevin Brown, Transport Correspondent
THE SIZE of the world merchant fleet fell by 11.4m gross tons in the year to June 30—nearly three times the previous record.
Lloyd's Register, the independent London-based ship classification society, said the fall amounted to 2.7 per cent of gross tonnage, reducing the fleet from 416.3m tons to 404.9m tons.
The world fleet has now fallen by 4.6 per cent since 1982, when total tonnage began to decline for the first time since the early 1930s. The previous biggest fall was 3.8m tons in 1984.
The figures reflect the deep recession in the shipping industry, which has led to a sharp fall in orders for new vessels and an increase in scrapping.
In a separate series of figures based on calendar-year returns, Lloyd's Register said the number of ships launched in 1985 was 1,817 totalling 17.2m gross tons, compared with 1,962 launches totalling 17.7m gross tons in 1984.
The number of ships sunk fell from 327, totalling 1.7m gross tons, to 307, totalling just under 1m gross tons. The total tonnage broken up increased, however, from 17.7m gross tons to 22.2m gross tons.
Lloyd's Register said the biggest falls in gross tonnage by national fleet were Norway (6m tons), Liberia (5.5m tons), UK (2.5m tons), and Greece (2.6m tons).
Liberia retained its position as the world's largest fleet with 52.6m tons, followed by Panama with 41.3m tons. The UK remained in eighth position with 11.5m tons.
Brokers reported an extremely busy week in the tanker market, despite continued attacks on merchant shipping in the Gulf by Iran and Iraq, notably at Larak Island.

Turkish airline may be split into 4 groups

By David Berchard in Ankara
TURKEY'S national airline, THY, may have to be split into four separate companies according to government officials.
THY was the first public corporation to be selected for privatisation by the Turkish government, nearly 18 months ago.
Under the scheme, which is expected to go before the cabinet shortly, THY would be divided into: (1) a passenger carrier retaining the present name; (2) a cargo charter company to be called Anatolian Airways, of which THY would be a part-owner; (3) a ground equipment company; and (4) a catering company.



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OFFICE EFFICIENCY IN A NEW LIGHT

World Economic Indicators

RETAIL PRICES (1980=100)				% change over previous year	
	Oct '86	Sept '86	Aug '86	Oct '85	
US	133.63	133.43	132.90	131.65	+1.2
W. Germany	129.00	129.40	128.20	127.10	-0.9
France	162.90	162.90	162.30	159.80	+2.1
Italy	203.50	202.30	201.70	194.30	+4.7
Netherlands	123.10	122.40	121.80	123.20	-0.1
Belgium	142.69	142.83	142.33	141.47	+0.9
UK	147.29	147.06	146.24	143.00	+2.0
Japan	115.30	115.30	114.90	115.80	-0.4

Source: Eurostat

UK NEWS

Oil price collapse 'cut energy bills by quarter'

BY MAX WILKINSON, RESOURCES EDITOR

THE COLLAPSE of oil prices this year has cut British industry's energy bills by about a quarter, according to the latest official figures published at the weekend.

The saving, which could amount to almost £2bn in a full year, is likely to show up in improved profits and will help to increase the Government's tax revenues next year, when the excise duty will be suffering the full effect of the recent relaxation of public spending controls.

The latest edition of the Government's Energy Trends shows that the major saving for industry has been in the costs of heavy fuel oil which fell by 58 per cent in the second quarter of this year compared with the same period in 1985.

Gas costs fell by only 8 per cent and coal by only 2 per cent, whereas electricity prices rose by 2 per cent in the period.

In the early part of the year, many companies with dual-fired industrial boilers switched from burning gas to take advantage of the sharp drop in prices.

More recently, however, British Gas has been forced to lower its prices in the industrial market to try to recapture those customers which had defected to oil.

At the time of the Autumn Statement earlier this month, Mr Nigel Lawson, the Chancellor of the Exchequer, said that the decision to add £4.7bn to public spending would be offset partly by higher tax receipts from industry and from value-added tax.

The latest Energy Trends give an indication of the size of the benefit from lower fuel prices in industry.

The fall in energy prices in the UK this year has been less rapid than in some other European countries.

Trichem, the consultant which monitors energy prices across Europe, says that heavy fuel oil prices fell by about the same amount in Germany as in the UK in the second quarter of the year compared with a year earlier, but gas prices for industrial consumers fell by 15 per cent, about twice as much as in the UK.

Energy Trends shows that in spite of the collapse in oil prices, Britain increased its own production of crude oil, by 5.1 per cent to 30.9m tonnes (225m barrels).

In the same quarter electricity sales rose 1.1 per cent. However, while coal and oil-fired stations produced 2.6 per cent more electricity, output from nuclear plants fell 2.1 per cent.

Energy Trends November 1986, Department of Energy, Millbank, London SW1.

Chinese welcome building society

By Hugo Dixon

IT IS pure chance that "Halifa" means "your prosperity" in one of China's many dialects. However, nothing else was being left to chance at yesterday's opening of the first multilingual Chinese building society - a Halifax Building Society agency in London's Chinatown.

The proceedings began with a ferocious golden-scaled dragon swallowing a cabbage - a traditional Chinese good luck ritual - and ended with everybody drinking "prosperity-sauce".

In the middle, the assembled company had the good fortune to be treated to no less than two speeches from Mr John Huddle, the MP for mid-Sussex and one of the vice-presidents of the Building Societies Association.

In the first speech, in Mandarin, he said: "Long live John Wan (the manager of the new Halifax branch); long live the Halifax Building Society; long live China."

In the second speech, in Cantonese, he said helping Chinese people buy a house in England was an excellent way of improving international relations.

Mr Huddle also said it was important that other building societies learn from the Halifax's example and open bilingual branches. It would then be easier for ethnic minorities to become homeowners.

Apert from being bilingual, the new Halifax is distinguished from other building societies in two ways: it is open on Sundays and it shares its premises with a Chinese dentist, a solicitor, an accountant and an insurance broker.

Britain to decide on joining European mini space shuttle

BY PETER MARSH

BRITAIN is expected to announce today whether it is to back the initial design phase of a joint European plan to build Hermes, a mini space shuttle proposed by France that promises to carry people and materials to and from orbit.

While France and West Germany have already declared their support for the scheme, organised by the 11-nation European Space Agency (ESA), Britain has left a decision to the last moment. The deadline for informing the agency about participation in the design phase was last night.

The decision is politically sensitive because not joining in the design of Hermes - a £25m project which will take until next summer, after which the European countries will have to decide formally whether to go ahead and build the vehicle - would send a signal to Britain's European partners that the country has doubts about the direction of European space policy.

UK ministers were due to decide at the weekend on whether to back Hermes. It had been expected that Britain would opt for a fairly small share of the design programme, putting up about 6 per cent of the cost, compared with the 43 per cent proposed by France and 30 per cent which is West Germany's likely contribution.

Although Hermes, a small reusable vehicle that would enter orbit on top of an Ariane rocket, is still only at the design phase, backing for the project from other countries is such that full-scale development is regarded as a certainty.

Should Britain express doubts about the project now, the country would be unlikely to take much of a stake in constructing the vehicle.

Officials in the British National Space Centre think that the Hermes project has merit, but they fear that it might put too much pressure on ESA's annual budget, which is running at about £800m a year and is due to rise to some £1.2bn by 1990.

Early plans for Hermes put its development costs at about £1.5bn. But UK officials fear the costs could double by the time development is finished in the mid-1990s.

Another reason for Britain's delay over the Hermes decision is that officials think funding of the vehicle could hold up plans to start, under the ESA auspices, a UK-inspired project to build Hiotol, a radically new space launcher.

Unlike Hermes, which would require a conventional rocket to take it into space, Hiotol, which is short for horizontal take off and landing, promises to leave the earth from a runway, so reducing the cost of going into space.

Mr Geoffrey Fattie, the Minister of State for Industry and Information Technology, whose responsibilities include space technology, has argued that rather than develop Hermes, a better option for Europe might be to jump straight to the development of Hiotol. The latter, the design of which is still at an early stage, could be flying by early next century and cost £4bn to £5bn to develop.

The UK proposal that Hermes could be sidestepped in favour of Hiotol has been disdainfully received in France. Mr Frederic d'Allest, director general of the French national space agency (CNES), called the proposal "idealistic" and said it would be dangerous to proceed with such a risky scheme without building Hermes first.

Exchange will try to ease strain of electronic trading system

BY ALAN CAINE

THE stock exchange has set up a task force to ease the strain on its electronic trading system which underpins London's reformed securities markets.

The task force plans to "tune" the Topic viewdata service, which collapsed on the first day of Big Bang last month, and speed up the supply of computer terminals.

However, in spite of the problems, market-makers and broker-dealers appear to be quickly adapting to the new trading methods. Firms have vacated the old stock exchange floor, where dealing was carried out face-to-face, much sooner than was expected, and many are prepared to make large deals using the electronic information.

One of the first jobs of the task force, set up by Mr George Hayter, head of information systems at the exchange, is to cut out bottlenecks in the overstretched Topic system, which reaches operating peaks each day of almost 60 per cent of its capacity.

Mr Hayter says that operating at such high levels of demand "is still making us uncomfortable," although tightening the system's design and improving programming quality should cut peak-loading by about 50 per cent before Christmas.

The backlog of several hundred orders for terminals is expected to take longer to sort out, and the exchange is unable to give delivery dates. Mr Hayter hopes the problem will be resolved by March or April next year, but this depends on the production of new hardware and software by Modcomp, the US computer supplier.

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Balance of payments warning

BY MICHAEL PROWSE

BRITAIN might need to consider some combination of exchange controls, import controls or tax-induced repatriation of overseas financial assets later in this decade, says Greenwell Montague the UK securities house, in a gloomy assessment of balance of payments trends.

Such extreme measures, however, would need to be contemplated only if a combination of higher interest rates and a lower exchange rate failed to generate sufficient

capital inflows to offset sizeable current account deficits and a strong underlying demand by UK residents for foreign assets.

The report's authors, Mr Robert Thomas and Mr Ray Richardson, in common with many other forecasters, argue that the UK's current account is likely to move into deficit in 1987 for the first time since 1978.

It will then be necessary for Britain to earn a surplus on its capital account, in order that the balance of

payments balance. This, they argue, will be difficult. The abolition of exchange controls in 1979 did not result in a once-for-all outflow of capital as investors sought to diversify their portfolios.

Instead there has been a strong and continuing outflow of capital on both the portfolio and direct investment accounts. The total outflow in 1985 was \$8.5bn, compared with an average annual outflow since 1980 of \$5.4bn.

Plans for export guarantee insurance

By Peter Montagnon

THE Government's Export Credits Guarantee Department is considering several new types of insurance schemes for exporters that will help it to compete with the alternative private sector insurance market. The schemes are still only at an outline consideration stage, but if adopted they could help stem the decline in ECGD's share of the British export insurance market as well as facilitate exports to developing countries.

ECGD confirmed at the weekend that a number of schemes were under consideration by a new product development team set up earlier in the year. "We are now looking very seriously at the way in which we meet the needs of our customers," it said.

Bankers involved in export finance say that these main ideas are now being examined. They are:

● An insurance scheme for bank letters of credit which would operate in cases where leading banks have already filled their internal lending limits for a particular country or firm. This would allow loans in support of British exports to continue, although ways would have to be found for ECGD and the lending bank to share the risk.

● A scheme that would allow ECGD to continue cover for established importers in countries where it was withdrawing fresh cover. This "commitment cover" would mean that trade with long-standing customers of UK exporters would continue to be covered in such circumstances although no new customers would be covered.

● A scheme that would allow exporters to borrow funds to finance sales abroad without having to set aside reserves in their balance sheet against losses arising from default by the customer who bought them.

ECGD's finances have suffered in recent years under the impact of the developing country debt crisis, resulting in pressure from the Government to make its operation more commercially-orientated. But as the traditional project lending markets in the developing world have dried up it has also suffered a fall in business which the new measures would seek to correct.

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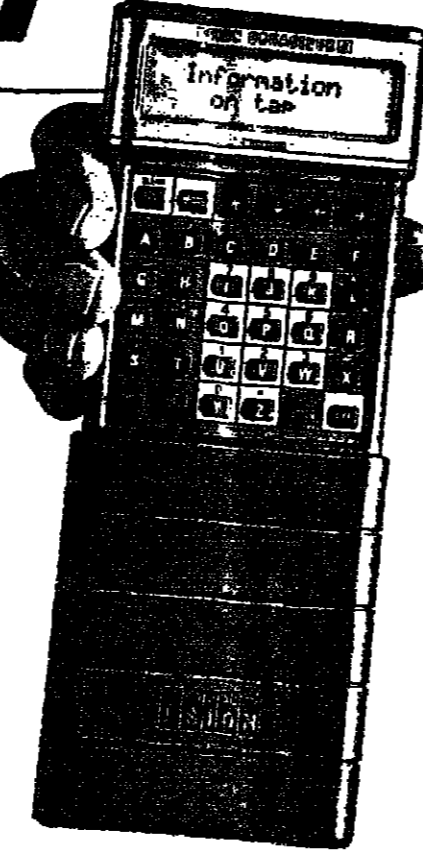
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Channel 4 considers going it alone. Financial Times Monday December 1 1986. The Independent Broadcasting Corporation (IBC) earlier this year announced its intention to apply for a licence to broadcast on the terrestrial television channels. The IBC's proposal is to broadcast on the terrestrial television channels. The IBC's proposal is to broadcast on the terrestrial television channels.

UK NEWS

Channel 4 considers going it alone
Raymond Snoddy reports on direct broadcasting by satellite
DBS poised for lift-off

DR JOHN FORREST, the recently appointed director of engineering at the Independent Broadcasting Authority (IBA), has a clear vision of the importance of Britain's direct broadcasting by satellite (DBS) project. "It is one of the most exciting and advanced projects in satellite broadcasting history," he says. And after spending two full days last week helping to interview the five consortia applying for the franchise to run three new channels of national television, he believes there is the expertise and resources to make it work. "The whole British electronics industry has been waiting for a green light and a clear decision on the way ahead. On that basis the industry can respond," said Dr Forrest, former technical director of GEC-Marconi. The IBA has also been emphasizing the opportunity DBS offers to move to larger television screens with higher definition pictures. "I think the whole situation is going to get highly competitive with more and more channels to watch. The public is looking for something new from television and that new aspect is large screens and stereo," says Dr Forrest. From the beginning the DBS picture is likely to be better quality than existing broadcasting. And Dr Forrest foresees the possibility of introducing progressively larger screens and sharper pictures in an evolutionary way every few years. "Potentially there is a tremendous opportunity for UK industry there," he says. After more than five years of talking and disappointment the IBA is likely to give the "green light" to British DBS later this week by awarding the franchise for the world's first wholly private sector DBS project. The French and West German DBS satellites, expected to be launched within a year, have received large government subsidies and at present do not use sophisticated technical standards which could lead to higher definition pictures. In Britain, if all goes according to plan, sometime in 1990 a high-power satellite 36,000km above the equator will begin broadcasting three channels of television direct to dish aerials half a metre in diameter on individual homes and to those already hooked up to modern cable television networks. Ironically the decision will come in the month when the BBC should have been switching on its two channels of DBS, first announced more than four years ago. Instead, the BBC decided it was too risky to go ahead, failed to sign the final agreement to build the satellites and is now being sued for £57m by GEC and British Aerospace for work allegedly carried out before the project was aborted. This time round, commercial organisations such as Lorrho, News International, Virgin, Robert Holmes & Court's Bell Group and Merchant bankers Robert Fleming are all vying for the right to invest in a project some believe could require as much as £700m for 15 years. The only thing that is certain is that when the winner of the franchise is announced this month that will only be the beginning of an extraordinarily complex project which comes with no guarantee of success. At least three very different problems will have to be solved if DBS is going to be anything other than a licence to lose money on an unprecedented scale. The DBS satellites will have to be successfully launched and give a reliable service. The receiving equipment on the ground will have to be available in time and at a price the consumer will be prepared to buy or rent. The programmes will have to be of high enough quality to persuade people not just to get the receiving equipment, but in the case of all but one of the applicants pay a monthly subscription to supplement advertising funded programmes. The present chaos in the international space launching business caused by the US Shuttle disaster and the faults in the European Ariane launch rocket may have eased by the time Britain's DBS satellites are ready to go. This week the European Space Agency is expected to confirm findings that the problems of the Ariane rocket have been caused by a flaw in a single component and that flights will resume in the spring. The electronics industry is confident it can provide the receiving equipment on time. "We have absolutely no doubt about it. We have constantly criticised the broadcasters and the authorities for being so lethargic," says Mr Douglas Topping, technical director of Thorn EMI Ferguson. Mr Richard King, managing director of Cambridge Electronic Industries, a member of the DBI consortium also says he has no doubt that the technology is there. He believes the receiving equipment will start at around £500 and that the usual rule of thumb of consumer electronics should apply - a 25 per cent price fall each time volume doubles. All the applicants have come up with what they claim are unique and exciting programme schedules. In fact most plan permutations of entertainment, films and news and live events. The money available to spend on programmes will be substantially less than normal broadcast television. Independent Television's total revenue, for example, this year will be about £1.2bn. Yet some applicants are planning to spend less than £50m a year on programmes for three new channels. Mr Patrick Whitten, managing director of CIT Research, leading new media consultants, worries about the franchise winner. Mr Whitten has a track record of taking a "realistic" view of the speed with which cable and satellite services will develop and so far he has not been proved wrong. For the DBS project to be viable in the longer term, he believes it will need to attract 10 per cent of homes, 2m, within five years giving a reasonable chance that this could rise from 15 to 20 per cent within 10 years.

DBS CONSORTIA
BSS: Amstrad Consumer Electronics, Anglia Television, Granada Television, Pearson (publisher of the Financial Times) and Virgin Group.
DBS UK: Carlton Communications, Columbia Pictures International, Dbones, Hambros Bank, London Weekend Television, Robert Fleming and Saatchi and Saatchi.
DBS: British and Commonwealth Shipping, Cambridge Electronic Industries, Electronic Rentals, Ferranti, Reed International, Sears, News International, and Mr John Jackson, the consortium chairman.
NBS: Bell Group and Mr James Lee.
SatUK: Borel Corporation, Lorrho, Tiltel, Celtic Films and Mr Jimmy Harley, media consultant.

Instead the channel asked Professor Alan Budd of the London Business School to study the financial viability of independence. The board now faces two conflicting views of its future, one from Prof Budd and a second, more pessimistic, from Coopers and Lybrand, its auditors. Prof Budd believes that national advertising revenue will show real growth of 5 per cent a year and that Channel 4 could increase its advertising rates by selling its own air time. By 1997, Prof Budd believes, Channel 4 could have an annual surplus of £32m on revenue of £280m. Coopers sees 5 per cent real growth in advertising and warns that the channel could have a deficit of £9m on revenue of £206m in the same year. The report is to be published on Wednesday. Prof Budd is critical of the selling methods of the ITV companies and says that at present "there may seem little point in rushing around with a vigorous sales effort when the extra revenue is so highly taxed." At present Channel 4 gets 10.9 per cent of total net advertising revenue. Prof Budd believes that it could prosper as an independent organisation if it captured 14.5 per cent of net advertising revenue. Coopers warns that independence would increase Channel 4's risks if the economic climate took a downturn. It also says the Budd study understates the likely size of the IBA transmittal rental and takes no account of who will pay for the Welsh fourth channel which at present costs £31.9m and has revenues of £2.3m. The auditors say Prof Budd also took no account of the cost of capital needs totalling £125m which would produce a revenue cost of £5m a year.

Sales warning after oil pipeline leak
OCCIDENTAL PETROLEUM has issued a warning that it might be forced to suspend sales of oil from its Flotta terminal near the Orkney Islands in northern Scotland following a leak in an undersea pipeline. The company said it had declared "force majeure" on contracts as a precautionary measure while engineers prepared to repair the leak which has led to the shutdown of the Piper, Claymore and Tartan oilfields in the North Sea. Occidental said yesterday it was too early to say if shipments would be interrupted or for how long. Tankers were currently being loaded at Flotta from stocks. The force majeure announcement was necessary for legal reasons, said the company. The three fields together produce about 300,000 barrels a day - about one tenth of UK output. On Friday, the news brought some unease to the oil market where the price of Brent crude, the benchmark grade, rose by about 20 cents to \$14.70 a barrel. The leak, which caused a large oil slick which is now being dispersed, has been traced to a cracked weld at the point where the Claymore pipe is connected to the main pipeline between Piper and Flotta. The pipes are 380 feet below the surface.

中國安徽

The Booming Anhui Textile Exports

Anhui Branch of China National Textiles I/E Corporation, as a state-operated enterprise with legal entity status, is the sole specialized corporation to deal in the import and export of textiles in the province. We have seven business management divisions specialising in raw material, gauze, artificial fibres, knits, cotton knits, garments and development and seven other divisions involved in various business services.

Our main products fall in some 50 categories including cotton, cotton yarn, cotton piece-goods, printed shirting, ramie yarn, ramie piece-goods, cotton manufactured goods, synthetic fibres, cotton knitwear, wollen knitwear and garments.



Apart from the superb quality of our products and services, our success in establishing a worldwide reputation and maintaining a substantial annual sales increase are also attributable to various other unique factors:

- 1. Anhui province, situated in the lower reaches of the Yangtze River in southeast China, is endowed with fertile soil, mild climate and abundant rainfall, which provide the ideal conditions for agriculture.
2. Our textile industry has a complete range of spectrum, including cotton textile, hemp textile, wool textile, silk reeling, printing and dyeing, yarn-dyed fabrics, knitting and chemical fibre. There are about 250 textile mills which have more than 800,000 spindles and nearly 30,000 looms in operation. About 100 mills are engaged in production for export.
3. The sea, land and air transportation network is well developed, conveniently crisscrossing the entire province.

Under the policy of "opening to the outside world and invigorating economy at home" the past five years have witnessed a significant expansion in the textile exports of our province. Our export volume in 1984 quadrupled that of 1981: with 44.5% growth on the average annually.

At present, we have established business relations with more than 300 companies in the world. Business talks with traders from all over the world are most welcome. Co-operation can be in the forms of processing of supplied or imported materials, compensation trade, agency or joint venture.

China National Textiles I/E Corp., Anhui Branch
Import and Export Building, Jinhai Road, Hefei, China
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Anhui Native Produce

China National Native Produce and Animal By-products I/E Corp. was the first corporation ever to deal in the export of native produce and animal by-products in China. In 1984, Anhui Native Produce Branch was set up.

Before 1977, we relied on I/E corporations such as in Shanghai and Tianjin to export our native produce. Ever since 1985, we handle our own export business.

Strategically located on the lower reaches of the Yangtze and Huai Rivers, Anhui Province is endowed with excellent transportation links, both land and sea, with the rest of the world. Land transportation routes stretch all the way to Hong Kong and Europe, while sea transportation can be routed to different parts of the world through Wuhu, our own port, and various other adjoining coastal ports such as Shanghai, Nanjing, Nantong and Lianyungang.

Over the years, our foreign trade has made great strides. Statistics for 1985 registered a staggering 6-fold increase of that of 1981. We have forged trade links with some 40 countries and areas.

Our products consist of more than 200 items in 8 major categories which include jute and jute products, native produce, ported plants, timber and timber products, feedstuffs, preserved fruits, spices and oil, industrial raw materials.

Peppermint Oil
With a long history of growing peppermint, Anhui Province ranks among China's major peppermint producers. Our refined menthol crystals and peppermint oil, which are refreshingly fragrant, stimulating and germicidal, are in great demand in world market. The products are widely used in tobacco, pharmaceutical, food and chemical industries.
Spearmint
Anhui Province plays a major role in the production of spearmint in China. Light-yellow in colour and with a pleasing fragrance, it

comes in an immense range of specifications to cater for the client's differing needs. Major buyers are from the U.S.A., the U.K., the Netherlands and Japan.

Citric Acid
It is widely used by food and beverage manufacturers, in pharmaceutical, chemical and other industries. Our citric acid is made from choice sweet potatoes by means of an advanced fermentation process. Noted for its consistent quality, it sells very well in Europe, Japan, the Middle East and Southeast Asia.

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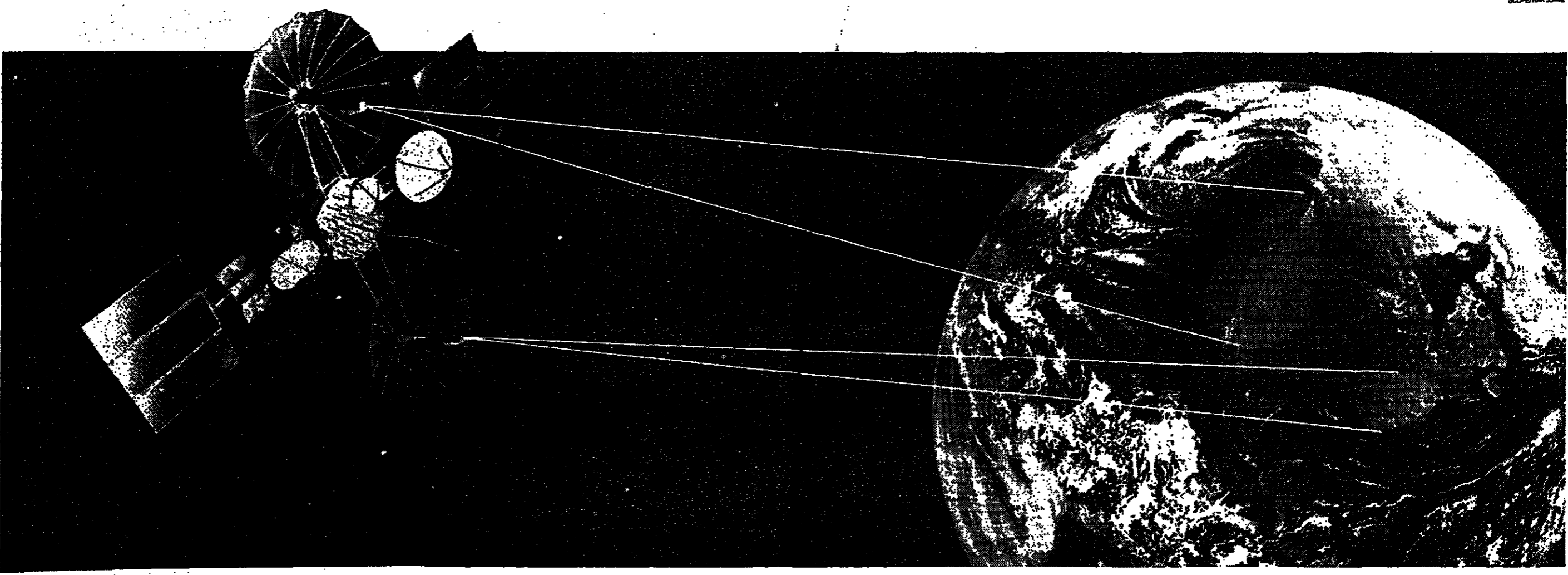
Gunnybags
Anhui-produced gunnybags are of superb quality and available in full specifications. Shipment time is duly guaranteed. In terms of export volume, Anhui is China's second largest gunnybag exporter. They are marketed to Western Europe, Africa, Southeast Asia and the Middle East.

Dehydrated vegetables
It contains the similar color, fragrance and taste with fresh vegetables. Major items include: garlic slices, red and yellow onion slices, ginger slices, carrot cubes, green string beans, whole and sliced, Honey

Anhui is noted for both the volume and variety of its fine honey. The varieties for export include milkweed, acacia, and white honey. In recent years, new products have been developed and are added to the range. Arrangements can be made to manufacture to clients' specifications.
Feedmix
Major products include sweet potato slices, rapeseed, cottonseed expeller, wheat bran, rice bran and green fodder, with major buyers in Europe and Southeast Asia.



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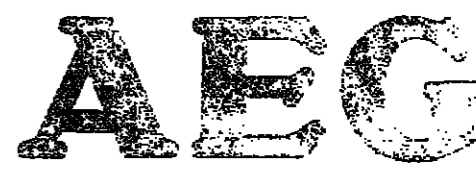
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UK NEWS

Importer of Japanese vehicles in receivership

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE privately owned company which imports Isuzu vehicles from Japan has been placed in the hands of a receiver by its bankers, London and Continental.

The receiver, Mr Bill Ratford of accountants Peat, Marwick Mitchell, said the deficiency was likely to run into many millions.

He suggested that Isuzu Cars (Great Britain) was a victim of the 25 per cent rise in the value of the Japanese yen in the past year. The company had also been too optimistic when setting sales targets.

Mr Ratford hopes to sell the company as a going concern and will be advertising for potential buyers this week.

Isuzu GB was set up by directors of Follett, which has Porsche and Jaguar sports car dealerships in

London. It was kept separate from the Follett company.

Isuzu GB is based at Ashford, Kent, and employs about 40. It started selling Isuzu's Piazza Turbo in February through about 20 dealers.

The company is believed to have been allocated 1,800 Piazzas for 1986 under the terms of the voluntary restrictions which limit imports of Japanese cars to the UK. Sales are understood to have been well below that, in spite of heavy spending on advertising and setting up a dealer network.

The Piazza was criticised for being a relatively old design. It was first sold in Japan in 1981 and is based on a study completed by Ital Design in Italy as long ago as 1979. Priced at £12,850, the Piazza is

competing with much more modern Japanese sports cars such as the Honda Prelude EX (£12,500) and the Toyota Celica (£13,000).

Next year Isuzu GB was to have started sales of the Isuzu Trooper, a four-wheel-drive vehicle which competes with the Rover Group's Land-Rover.

Isuzu GB indicated recently that it hoped for its import allocation in 1987 to be lifted from 1,800 to 2,000 to be split equally between the Piazza and the Trooper.

It came as something of a surprise to the UK industry that Isuzu GB was to import the Trooper, which is sold in continental markets by General Motors, the US group which owns Opel and Vauxhall in Europe and 39 per cent of Isuzu in Japan.

Tarmac's target is 10% of new homes

By Joan Gray, Construction Correspondent

TARMAC is aiming to capture 10 per cent of the market for new homes in Britain and to be building 16,000 houses a year by 1990.

The company is already vying with George Wimpey to be Britain's biggest housebuilder, and its latest target is far in excess of that announced by any other company.

Tarmac expects to build and sell between 10,300 and 10,400 houses this year, following 8,183 completions in 1985. It is gearing up to build at least 11,000 in 1987.

George Wimpey - current leading housebuilder - built 9,743 houses last year and is likely to complete 10,750 this year.

Last year's number one - Barratt Developments, with a total of 10,300 completions in 1985 - has radically changed its strategy, and dropped out of the volume race. It has moved up-market instead and plans to complete only 8,500, but far more luxurious, homes next year.

"It's not our corporate objective to be Britain's number one housebuilder because that would be out of character with Tarmac," said chief executive Mr Eric Pountain. "But we do want to build 10 per cent of the new houses in the UK and if that makes us number one so be it."

Tarmac is very much the dark horse of the housebuilding industry. Unlike Barratt and Wimpey, which have catchy nationwide advertising campaigns and national identities, Tarmac has kept a deliberately low profile.

It consists of 20 separate small housing subsidiaries - the largest, McLean's, where Mr Pountain started, builds only 750 houses a year - all selling under different names and with different identities.

"And we won't go national on it because it's a very local business," said Mr Pountain. "McLean's really means something in Wolverhampton and the managers live in the community and advertise in the community and build what is right for their community."

Housebuilding is already Tarmac's second most profitable activity. It earned £24.7m profit on £306m turnover last year, compared to the mainstream quarrying business's £86m profit on £800m turnover.

With its houses now selling at an average £40,000 each, a turnover well in excess of £400m is predicted for 1986; and in a year which has seen house prices increase at four times the rate of inflation an increased level of profitability would be unsurprising.

Housebuilding is not just highly profitable. Its other attraction, explains Mr Pountain, is that, unlike quarrying, "it's the only really big business in the group we can continue to grow organically without buying companies and people."

Denying persistent rumours that he is on the acquisition trail, he emphasises that "we want to keep expanding from within and don't want to buy any more housebuilding companies."

"We would like to see each of our 20 companies building 750 houses each, and all staffed independently so you avoid the problems of quality control of a very big company."

British Gas plan cuts cash calls

By Richard Tomkins

THE impending flotation of British Gas appears to have discouraged other companies from trying to raise cash on the stock market, according to new issue statistics from Samuel Montagu, the merchant bank.

The figures show that new money raised through the issue of listed securities totalled £725m in November - a sharp fall from the £2.5m of October and well below the £284m of November last year.

The October figure was boosted by the TSB flotation, worth £1.5m, but November's figure also compares badly with the £2.2m raised in September. This suggests that companies are nervous in attempting to compete for cash at a time when investors are holding back their funds in readiness for Britain's biggest stock market flotation this week.

British companies raised £625m on the domestic market during the month. The biggest single sum was the £118m raised by Bedland through a rights issue.

Thirteen other companies made rights issues totalling £141m, but only three issues amounted to more than £20m: those from Regalian Properties (£37m), British Benzol (£29m) and John Waddington (£23m).

UK software holds its ground overseas

By David Thomas

THE BRITISH computer software industry has been holding its own in world markets, an official report commissioned by the Department of Trade and Industry (DTI) is likely to say.

The report will contain significantly different conclusions to those of a study completed in June by the Advisory Council for Applied Research and Development (Acad), a Cabinet Office body, which caused a storm in the British software industry.

The Acad report listed numerous apparent weaknesses in the British industry and argued that, unless it competed more vigorously in world markets, only companies supported by the Ministry of Defence would survive within 10 years.

However, statistical research carried out for the new report, which has been written by Coopers & Lybrand, suggests that the Acad study significantly overstated the weaknesses of British software.

The Coopers & Lybrand report is likely to show that the main British software companies have not been losing their share of world markets and that a high proportion of their revenues are derived from overseas sales.

The final details of the report, which is unlikely to be published in the new year, are still under discussion between the DTI and Coopers & Lybrand.

However, it will probably give

some support to the idea, long argued by the British industry, that British companies are handicapped compared with their international competitors by the failure of the British public sector to contract out much computer work to private companies.

At the same time, it will note that central government has markedly increased its use of private companies for computer work in recent years.

The Coopers & Lybrand report will probably say that growth in the UK software market is likely to slow down, implying that European software companies are due for even fiercer competition from US companies.

This might be seen by some people as a particular problem for the UK industry because of its fragmented nature, a subject on which Coopers & Lybrand has produced background reports. The British industry has been thought at a disadvantage because it has relatively few large companies compared with those of the American and French industries.

However, the final version of the report is unlikely to contain any recommendations of the rationalisation of the British industry or on what to do if takeovers of British software companies are mounted from the US, because such recommendations would fall foul of the Government's commitment not to intervene in industry.

Foreigners confound expectations

By Philip Basset, Labour Editor

FOREIGN-OWNED companies in the UK feature some significantly different industrial relations practices to indigenous companies - but some practices confound traditional British expectations of how foreign companies operate.

That is a conclusion drawn from findings on the industrial relations practices of foreign-owned companies in the new Workplace Industrial Relations Survey, jointly funded by the Department of Employment, two other official agencies and a private sector research institution.

Such companies, representing about 7 per cent of total employment, were more likely to have made severe workforce reductions in 1980-84 than indigenous companies, less likely to have kept their

employment constant, and equally as likely to have grown in employment.

They were more likely to employ personnel specialists to manage a given number of employees and in general they had less complex bargaining units with a higher proportion having only a single bargaining unit to cover manual workers. Plant bargaining was very much more important than for indigenous companies, especially for non-manual workers.

Foreign-owned companies were more likely than UK companies to have made initiatives on employee involvement, and were "noticeably more forthcoming," according to the authors, with information about the financial position of the establish-

ment - "a fairly widespread difference between foreign-owned and indigenous workplaces."

However, against widely-held belief, the survey found that union recognition in such companies grew: 45 per cent recognised manual trade unions in 1980, and 54 per cent did so in 1984, principally because a greater proportion had manual trade union members present as employees.

Similarly unusual was its findings on the closed shop. In 1980, foreign-owned companies were marginally less likely than their UK counterparts to have a closed shop, in 1984 they were more likely to do so, with 23 per cent of foreign-owned companies featuring one.

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THE GLENLIVET - MUCH SOUGHT AFTER



For the Highlander, distilling whisky was as natural as breathing air. Generation after generation inherited a passion for turning the water of the glens into the 'water of life'.

Whisky wasn't just his traditional national drink. It was his bread and butter. Distilling was virtually the only way he could turn his victuals into cash to pay rents, reward his workers and to feed and shelter his family.

But by the middle of the 18th century, the government made this well nigh impossible.

Thirsting for revenue, it imposed prohibitive taxes on whisky making.

While some Highlanders were brought to their knees and paid up, many others took their stills and skills, and fled to the remote mountain areas to produce their beloved whisky illicitly.

The Highlanders see red.

Almost immediately, excisemen, or gaugers, were despatched North, to stamp out the practice and apprehend the offenders.

This angered the Highlanders. To them it was the government and its red-coated lackeys who were the criminals, taking the very bread from their mouths.

Robert Burns (who, ironically, became an exciseman later) expressed the nation's sentiments in venomous verse: "Thae curst horse-leeches o' th' Excise, Wha make the whisky stells their prize! Haud up thy han', Deil! ance, twice, thrice! There, seize the blinkers! An' bake them up in brunstane pies for poor damn'd drinkers."

Such was the Highlanders' contempt for the law that it was not even considered a disgrace to go to prison for illicit distilling.

Indeed, in Dingwall Gaol convicted distillers were treated with privilege, being allowed out on Sundays and special occasions.

One prisoner even approached the governor, with the remarkable proposition that they set up a still together in the gaol.

Such widespread defiance made curbing the outlaw whisky makers a hopeless task.

As one illicit still was closed down, another began. And in 1747, one particular still began, which was to become the most famous distillery of them all. THE GLENLIVET Distillery.

The Name Dropper.

The founder of THE GLENLIVET

Distillery was one John Gow, alias Smith.

He was a veteran of Culloden, having fought and lost on the side of the ill-fated Bonnie Prince Charlie, and was forced to flee his old haunts near Braemar for fear of his life.

He took his family North, hid in a remote valley and dropped his gaelic name Gow in favour of Smith, to baffle the English soldiers.

(Which explains why such a Sassenach name appears on our label.)

There he settled down for a quiet, anonymous life of farming and, of course, illicit distilling.

The Well of Fortune.

As luck would have it, John Smith had made his new home in the precise spot where the water and the peat were the best in Scotland for making malt whisky.

He had discovered Josie's Well.

It is the pure Highland water that springs from Josie's Well that makes THE GLENLIVET so special.

We can't explain it. It just does. And there is no other well that performs the same magic. THE GLENLIVET made with any other water would not be THE GLENLIVET.

In 1747, whisky was distilled with much conviction.

By the time John Smith's grandson George, inherited the still in 1817, the fame of the illicit GLENLIVET had spread far and wide.

"It is worth all the wines of France" opined the Doctor in Sir Walter Scott's St. Ronan's Well, "and more cordial besides."

Praise indeed for THE GLENLIVET's "cunning chemists," as Scott called George Smith and his workers.

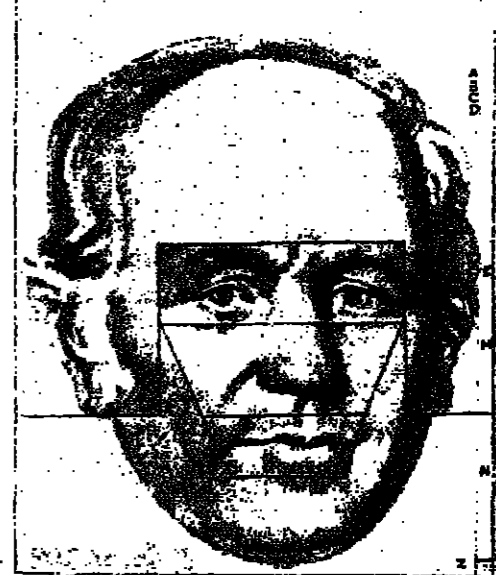
Christopher North, who in 1827, wrote a famous series of sketches in Blackwood's Magazine, quoted James Hogg, the Ettrick Shepherd:

"Gie me the real Glenlivet, and I weel believe I could mak' drinking toddyoot o' sea-water. The human mind never tires o' Glenlivet, any mair than o' caller air. If a body could just find out the exac' proportion and quantity that ought to be drunk every day and keep to that, I verily trow that he might leeve for ever, without dying at a', and that doctors and kirkyards would go oot o' fashion."

Going straight.

Such a celebrated whisky couldn't remain illegal for long.

(Although outlawed, THE GLENLIVET was the toast of gentlemen,



lords and even kings. George IV of England was said to drink "nothing else.")

It was the Duke of Richmond and Gordon (George Smith's landlord) who eventually put THE GLENLIVET on the strait and narrow.

He persuaded Parliament to pass the Act of 1823 which made legal distilling worthwhile.

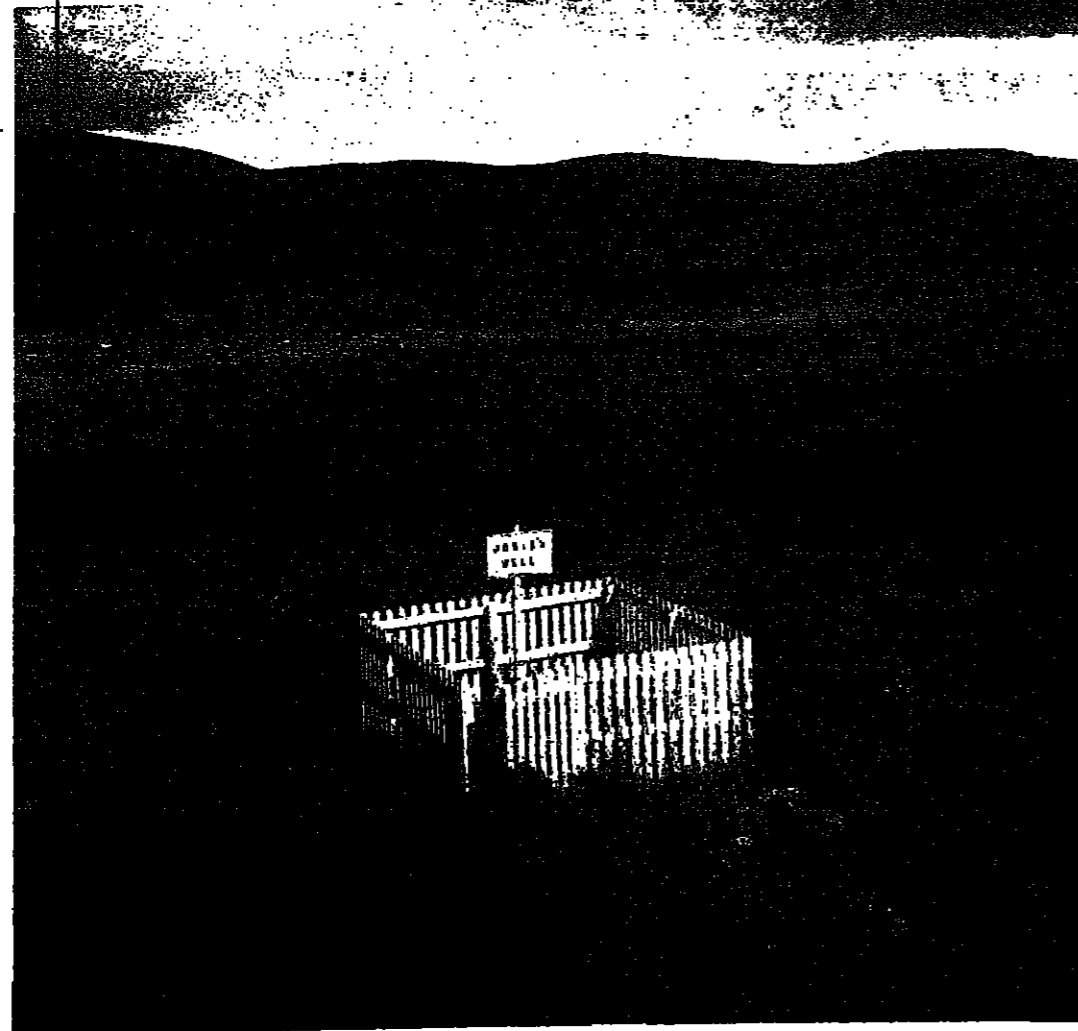
The following year George Smith took out the very first licence. Making THE GLENLIVET Scotland's first malt whisky.

People had been enjoying it secretly for 77 years. Now it existed. Officially.

The rest is history. THE GLENLIVET's unique subtle taste and distinctive 'nose' has been appreciated ever since.

Try a dram and experience its magical properties yourself.

These days, you can't go to gaol for what you're drinking.



Scotland's first malt whisky.

THE GLENLIVET AND GLENLIVET ARE REGISTERED TRADE MARKS IN THE UK AND OTHER COUNTRIES

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

THE IVORY coloured carpet is spotless, the offices look like English drawing rooms, the panelling shines. All is quiet but for a conversation beyond an open door.

This scene is the executive suite of J. P. Morgan, parent of Morgan Guaranty Trust. And as befits the image of America's premier commercial bank, it is lush, unhurried, and positively reeks of quality.

Morgan Guaranty is in a class by itself in the banking world. Though founded by one of Wall Street's more notorious wheeler-dealers, the name has come to be synonymous with all the noblest qualities to which bankers aspire: soundness, discretion, intelligence, and a client list that is the corporate equivalent of the Social Register.

Perhaps the most striking thing about Morgan is that its competitors, always quick to pick holes in each other, usually have little but praise for its achievements. "Add it all up and it's awesome," says one of them, with generosity rarely heard on Wall Street.

Many of Morgan's virtues are plain for all to see. Though not the largest US bank (it ranks number five), it is the only one which commands the prized triple A rating in the credit markets—such is the strength of its balance sheet and trading record. With its high reputation, it can thrive by catering to only 600 of the world's top banking customers as close clients (though it deals with thousands more in the course of its everyday business) while its competitors cast their nets far and wide, and even have to stoop to provide banking services to millions of ordinary people.

But in many respects, these are qualities which other banks could also achieve if they only set out to emulate Morgan—as another large commercial bank, Bankers Trust, has in fact done. And while Morgan may put on classy airs, it knows how to use its elbows when fighting for deals. "They do it in a gentlemanly way, but they hustle like everybody else," says a competitor.

The special Morgan qualities which others find harder to nurture are far-sightedness, which has consistently put it at the forefront of trends, and a high level of cohesion within its ranks, the famous Morgan culture.

Morgan is, unusually, run by a "corporate office"—the four top officers who inhabit those comfortable drawing rooms and who consist of Lewis Preston, the bank's 60-year-old chairman, Robert Lindsay, the president, Dennis Weatherstone, chairman of the executive committee, and

Morgan Guaranty

The noble hustlers of Wall Street

BY DAVID LASCELLES

DESPITE its patrician image, Morgan is a hardy campaigner for reform of US banking law, particularly the Glass-Steagall Act which bars banks from underwriting corporate securities.

In order to overcome the section which says that banks may not own companies "primarily engaged" in the prescribed securities business, Morgan has set one up that would be only "partially" engaged in it. J. P. Morgan Securities Inc. has \$250m in capital and already includes

the bank's money market operations and Treasury bond dealership. From January it will also have the municipal bond and public mortgage-backed securities operations. All these activities are permitted to banks under US law.

The next step is to obtain Federal Reserve Board permission to include private mortgage-backed securities, municipal revenue bonds and commercial paper, which fall into a grey regulatory area. Morgan filled its request in

August 1985 and is hoping for the go-ahead by the end of this year. If approved, these activities would constitute a minor part of the subsidiary's operations, and fulfil the requirement that Morgan was only "partially" engaged in them. To insulate the bank from any losses it might sustain, the subsidiary carries no debt guarantee from its parent.

Morgan has deliberately held back from asking for the right to deal in corporate securities through the new

company, knowing that would be impossible as the law currently stands. But it is hoping to be allowed to start a stockbroking service through which it could execute orders for equity stocks on the floor of the New York Stock Exchange, and advise investors. Morgan is already a major factor in the equities market through its investment division which manages some \$50bn of funds and conducts extensive stock research.

The key question, according to David Fisher, the president

of the subsidiary, is where the Fed will draw the line on "primarily engaged." Some banks think it could be 49 per cent. We think it will be lower.

Some people have seen in the new company the seeds of a new Morgan Stanley, the investment banking arm of the J. P. Morgan banking empire which had to be split off when the Glass-Steagall Act came into force in the 1930s. But its prospects will be limited until the Act is changed.



(L to r) Lewis Preston, Dennis Weatherstone and Alfred Vinton

Morgan does its best to protect its relationships by offering advisory services which are not dependent on transactions, or by arranging complex deals which require a lot of personal contact. But one senses it is more worried by this threat than it is prepared to admit.

The narrowness of Morgan's business explains the sharpness of its attacks on US bank regulation, specifically the Glass-Steagall Act which prevents it developing a fully-fledged corporate finance business in its home market.

Preston admits: "At least for the moment, we are a hybrid, and will remain so until we get some legislative relief." That relief may be a long time coming, especially after the recent scandal which has reinforced arguments that securities are the last thing a bank should be allowed to do. Preston has threatened in the past to give up Morgan's banking licence in order to escape banking regulation, but that was more for dramatic effect. "That option is not really attractive because a significant part of our business still comes from banking and deposits."

Morgan's lack of a broad retail customer base could be another liability in a volatile banking world. Continental Illinois arguably went under because it was overdependent on the bank's deposit base. The Bank of America may survive thanks to thousands of loyal personal account-holders. Morgan is careful to counter-balance this danger by running an extremely conservative balance sheet and keeping its capital ratios among the highest in the land.

Being top bank also means Morgan has only one way to go in the rankings. "When you recognise you are in a vulnerable position you direct all your attention to getting from A to B," says Fred Vinton, vice-chairman of Morgan Guaranty Ltd, its London-based capital markets arm. "There's nothing magic about this business. We plug away at it."

Morgan certainly seems to be getting to B. Thomas Hanley, the banking analyst at Salomon Brothers, rated Morgan as the top US bank this year based on profitability, credit quality, capital, productivity and liquidity. "It's very impressive. But it's also sustainable," he says. "They have an ability to anticipate events greater than anybody else, and then to structure themselves in anticipation."

Its chosen market may be high grade, but it is also the most competitive, and the one where long-standing relationships between bank and client are under the greatest pressure.

Management abstracts

International commerce with verbal savoir faire. W. K. Weber in Business Marketing (US), May 1986 (5 pages).

An amusing piece on gaffes that can be made in translation or interpretation at international conferences or in letters. Plenty of brief examples, presents advice on how to prepare for a multilingual conference, and what to look for in recruiting translators and interpreters.

Confronting alcoholism through team evaluation. M. R. Edwards and J. R. Spruill in Business Horizons (US), May/June 1986 (6 pages).

Examines disincentives that inhibit individual supervisors from identifying alcoholism in the work force, such as fear of confrontation, difficulty of documentation, and fear of being blamed; finds there are some (but no very strong) incentives for action, but contends that team evaluation methods of performance appraisal can be more successful.

Selling to high-tech top management. D. S. Malow in Business Marketing (US), June '86 (4 pages).

Examines the difficulties of closing sales to high-technology companies—for example, the need to take, and the need to access customer top management; offers an approach to achieving sales objectives in which the target customer is reached "from the bottom up in order to sell from the top down." The aim is to make early contact with the "economic buyer" who can make the purchase without higher approval.

Post-merger integration. P. Shrivastava in The Journal of Business Strategy (US), Summer '86 (12 pages).

Estimates that over half of all mergers simply don't work, a significant number being due to faulty post-merger integration; examines the principal integrative tasks at the procedural, physical and managerial/socio-cultural levels. Explains the need to determine the optimal degree of integration for each merger; takes into account the merger objectives and the size/form of the merging companies. Outlines strategies for integration, and advocates a phased, evolutionary approach rather than a big bang.

These abstracts are condensed from the abstracting journals published by Ashby Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p & p; cash with order) from Ashby, PO Box 23, Wembley HA9 8DJ.

John Ruffe, the vice-chairman. The number will fall to three in January when Lindsay retires. To be succeeded by Weatherstone, a 55-year-old Englishman, who will thus move into succession for the chairmanship of the bank.

The office, says Preston, "is a throwback to the old partnership which founded the bank." Throwback or not, it allows the key men to keep abreast of everything that is going on. Each man has primary responsibility for some major activity and acts as a back-up for one of the activities covered by another. "We share our perspectives. We don't like to be surprised," says Preston, who used to be in the marines.

Largely because of the strong consensus at the top, Morgan has been able to react faster and more radically than any other US bank to the changes that have recently reshaped the world banking business—particularly the expiration of the market for big company and country loans, once Morgan's

bread and butter, and its replacement by investment banking: providing sophisticated financial advice and arranging complex securities-based financial deals.

Earlier this year, Morgan effectively transformed itself into a merchant bank by merging its lending business with its capital markets services to form a new Corporate Finance Group. Apart from highlighting the decline of what was once the bank's most basic business, the reorganisation was supposed to equip Morgan to handle the whole gamut of investment banking products.

The trend towards securities finance was one it had been following carefully. In London, it has become one of the largest issue managers in the Euro-markets, and a dealer in privileged stock; a move into equities is now planned. In other countries it has gone into the securities underwriting and distribution business. In some cases this has meant closing down conventional branches where they are no longer

needed.

In Tokyo, Morgan has joined the line of banks seeking a licence to deal in securities. It is also one of the few foreign banks permitted to engage in trust banking in Japan. Even in the US, where banks are still prohibited by law from dealing in corporate securities, Morgan is selling whatever investment banking services it legitimately can, and it has applied to the Federal Reserve Board for permission to deal in a wider range of securities (see box).

Instead of the traditional account officer, Morgan now allocates teams of individuals to each of its big clients. Each team contains whatever skills Morgan thinks that client will need: capital markets, planning, mergers and acquisitions, etc. Structurally, this means that Morgan is organised less along geographical than industrial lines where knowledge of types of markets and the companies that operate in them is the key. These changes have been backed up by heavy investment

in new technology, including a custom-built \$210m communications, processing and accounting centre in Delaware.

"We worry terribly whether we're communicating the strategy and managing the change properly," says Preston, who claims that Morgan is not an American so much as an "international bank." A third of its officers are non-American, and a stir abroad is "de rigueur" for high flyers.

Morgan has an advantage, of course, in trying to get its staff to pull together, with only 14,000 of them it is tiny compared with the likes of Chase and Citicorp with many times that number. But Morgan-watchers say the bank also has the close-knit corporate culture of the large US banks.

"We attach a lot of importance to communication and co-operation," says Weatherstone. He says that while Morgan pays its staff according to the nature of their work and rewards merit, "we don't want to get people overly motivated to do transactions if that means they

co-operate less with their colleagues and customers."

The stain on that culture is the recent case of Antonio Gebauer who admitted plundering millions of dollars from customers' accounts. Preston says bluntly: "It was a betrayal."

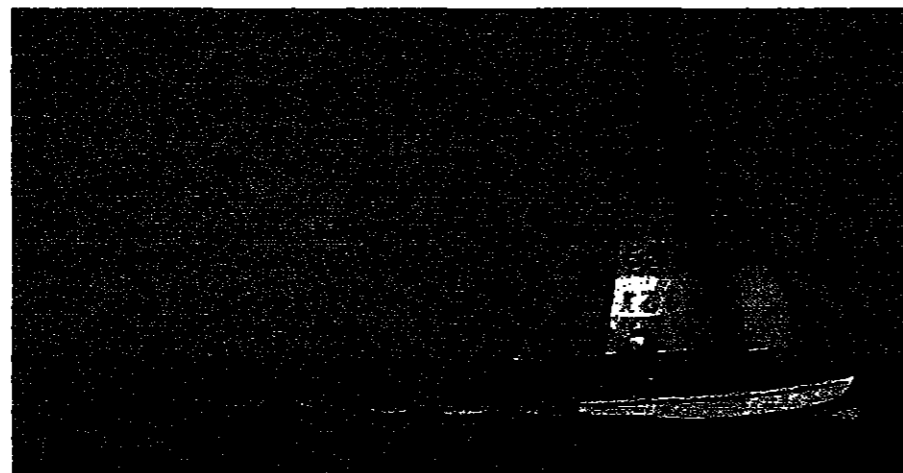
Morgan's aura of quality is carefully nurtured by the bank itself, of course, and it is partly intended to conceal some of the weaknesses behind that impressive facade.

The irony in Morgan's pre-eminent position is that it is also the most vulnerable. Its most obvious liability is its dependence on a narrow market. Although it has reached swiftly to the changing habits of its prize customers, the new strategy was, in one sense, an act of desperation since Morgan must hold its clientele or die.

Its chosen market may be high grade, but it is also the most competitive, and the one where long-standing relationships between bank and client are under the greatest pressure.

Everything under the wind.

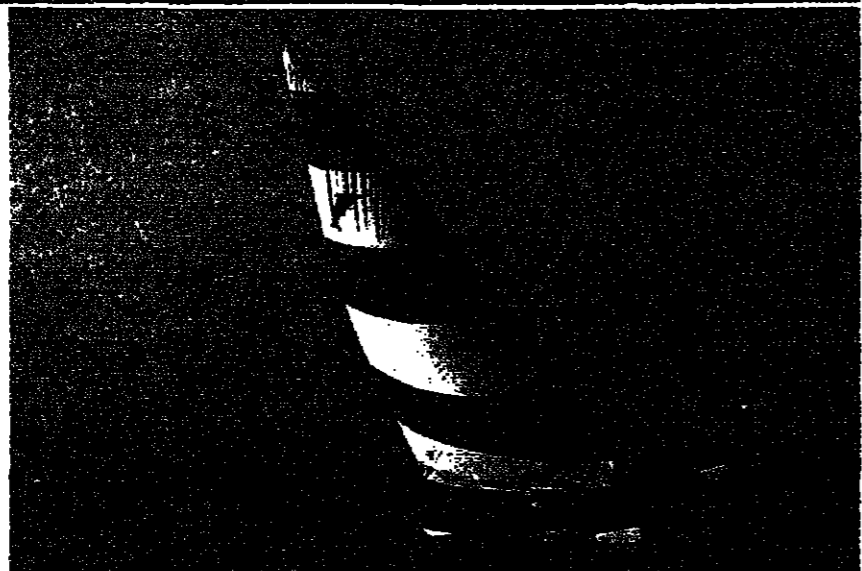
The coast of Levante is full of surprises. Sometimes the sea itself can capture all your attention.



The Costa Brava is left behind little by little. Soon your eyes will be full of Mediterranean and adventure.



In the middle of Spain, hundreds of kilometers from the sea, a lake offers everything you need to make the most of the wind.



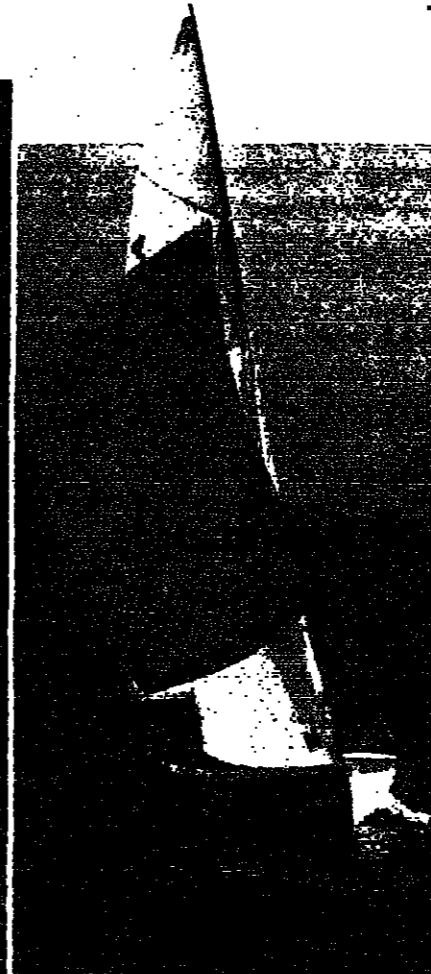
Spain covers an area of some 500,000 square kms. But the ways of having fun don't stop at the coast. They go on even further.

Where the land ends, the sea begins. And with the sea, another way to enjoy yourself in Spain.

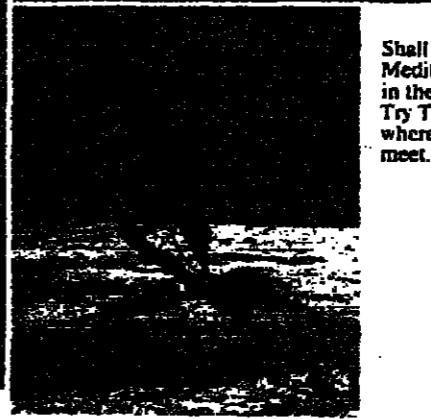
More than 5,000 kms. of coastline offer a real paradise for water sports' enthusiasts in Spain.

Go to any of the many Marinas in our country. For a small fee, you'll be able to hire a sailing-boat, catamaran or even a luxury yacht with crew thrown in.

Later drive right in and discover a new world—the other Spain where wind and sea play the leading roles. Spain has no limits. Come on in.



In the foreground, fun. In the background, the seductive landscape of the island of Menorca. The wind has the leading role.



Shall we sail in the Mediterranean or in the Atlantic? Try Tarifa, a place where the two seas meet.



Spain. Everything under the sun.

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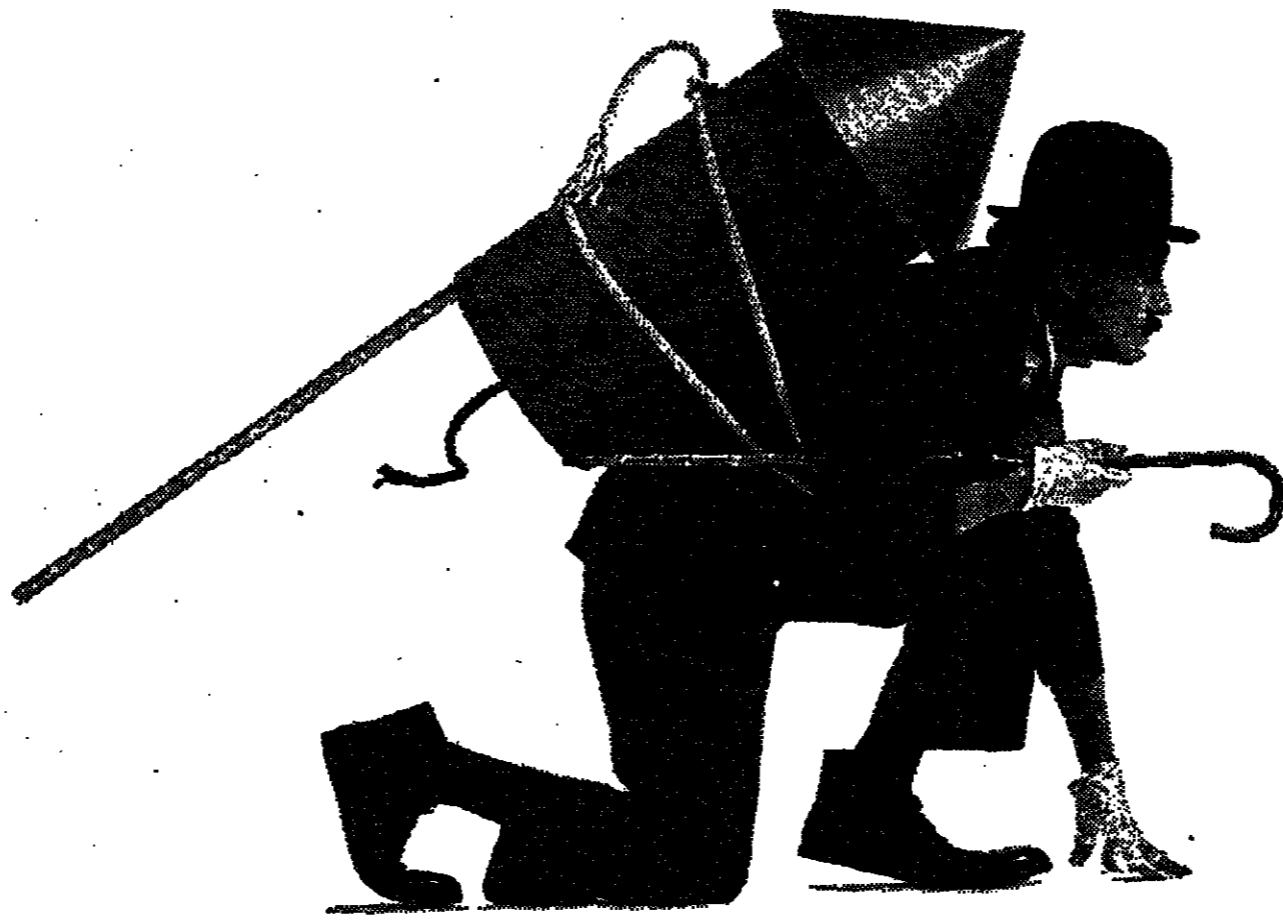
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The new PC XT286. Bringing the power of a PC AT to the XT family.

As a high flying professional, you often demand a little extra.

Extra time to study all the facts and figures, before you take off into the unknown.

Extra attention to the details that could turn a good project into a great one.

And extra help storing, analysing and using the information so vital to making good decisions.

What you need is an extra special tool: the fastest member of the popular IBM Personal Computer XT range, the affordable new XT286.

It's based on the powerful Intel 80286 micro-processor giving you the performance of a PC AT.

For example the XT286 quickly helps you make sense of the largest spreadsheets. And it also makes lighter work of the heaviest business applications.

That's because the advanced technology gives you a large memory - 640 kilobytes on a standard circuit board - that takes the most sophisticated program in its stride, and still leaves expansion slots free for extras.

So it easily grows with you.

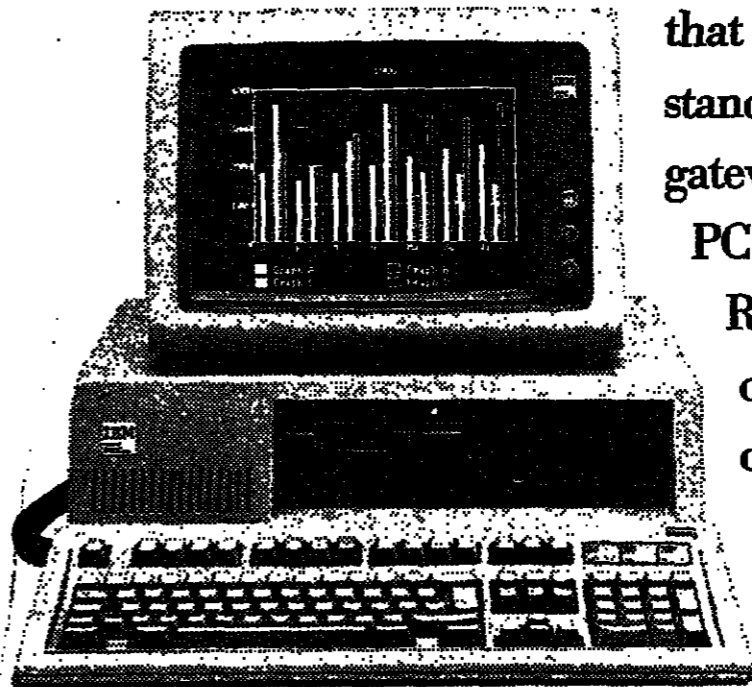
The PC XT286 comes with a 20-megabyte fixed disk and a 1.2-megabyte slimline diskette drive.

There is also space available for another diskette

drive: an extra 1.2-megabyte drive, a 360-kilobyte device or the new 3.5 inch diskette drive.

You can choose from thousands of tried and tested programs written for the IBM PC family.

Think of the extra benefits that all this could bring to you personally. Storage and processing power that can be used as a stand-alone PC or as a gateway from your IBM PC Network or Token Ring Network to your company's mainframe computer.



That gives you easy access to applications and data stored there. All you need is the appropriate software, hardware and cabling.

Contact an IBM Authorised Dealer today or complete the coupon to find out more about how the new PC XT286 can give you an extra lift.

For further information about the IBM PC XT286, and IBM Authorised Dealers, please write to IBM PC Enquiry Centre, IBM United Kingdom Limited, PO Box 116, Northern Cross, Basingstoke RG21 1EJ. Or telephone LinkLine 0800 444 111.

Name _____ Position _____

Company _____

Address _____

Postcode _____

Daytime tel no: _____



Little Tramp Character Licensed by Dabbler Inc., S.A.

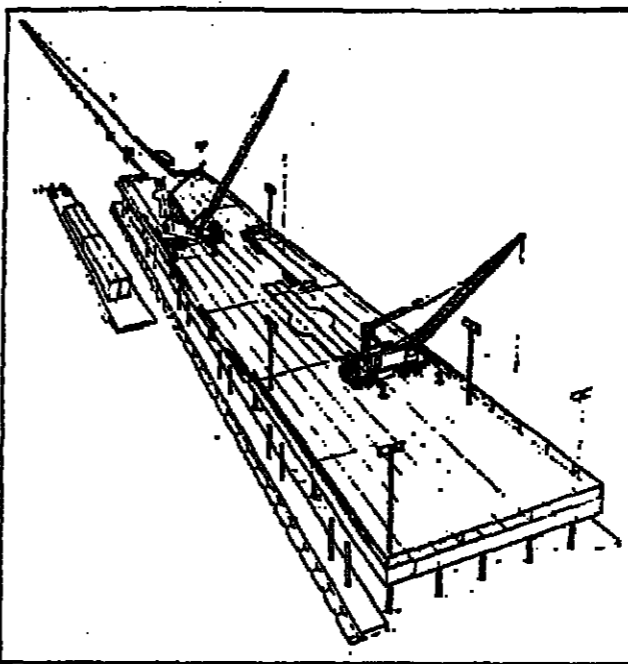
CONTRACTS

Fairey Marine wins US defence order

FAIREY MARINE has won a \$13.8m (£9.7m) order, with a further \$6m (£4.2m) option to develop a pontoon and causeway system for the US Department of Defense. The company won the contract, against stiff American competition, through keen pricing and because of previous experience producing a similar pontoon system for the British Army's Royal Corps of Transport, at Marchwood, Southampton.

Fairey Marine has entered a joint venture with two American companies acting as sub-contractors to develop, construct and demonstrate the new system and a prototype 500 ft elevated causeway from pontoon elements. The prototype system will be built in the US by the United Chem. Can Corporation of Pennsylvania while a second partner, Advanced Marine Enterprises of Washington DC, will provide support documentation for the US. Fairey Marine will supervise and manage the project over the next two years from its technical facility at Cowes.

A system of 45 ft and 20 ft long steel cells, each 8 ft wide by 4 ft 6 in deep, will clip together to form floating pontoons. The same cells will also assemble into elevated



Artist's impression of the cantilevered elevated causeway developed by Fairey Marine for the US military.

causeways up to 3,000 ft long, surf line onto a beach in support of amphibious landings. Engineers will build the system from the beach, staying dry above the breaking waves by cantilevering each new section into position from the previous one by on-board cranes, then driving support piles from the elevated section into the beach below. Because of this feature the system is referred to as CANTELEVERED CAUSEWAY and, unlike previous systems, is stackable into container-sized units which can be moved and transported by standard container equipment.

"This is a most significant contract, moving us into a market which has enormous potential," says Fairey Marine managing director, Mr Jack Barr. "It's the culmination of a strategy we implemented two years ago to broaden our activities into marine-related floating assemblies built to defence standards. Our system has commercial as well as military implications and we're looking to Nato and other markets as well as the US. The basic pontoon cells can be applied to floating causeways, roll-on, roll-off pontoons, motorised rafts, diving platforms, floating breakwaters, and structures for storage and transportation of fluids and gases."

This advertisement is issued in compliance with the requirements of the Council of the Stock Exchange

ASHTHEAD GROUP PLC

(Incorporated in England and Wales under the Companies Act 1985 - No. 1822882)

The Group trades under the names of "A Plant" and "Tool Hire Shops" and is engaged in the hiring out of a wide range of non-operated plant and tools. Customers include those involved in construction, civil engineering, maintenance, repair and refurbishment work, as well as the general public.

Placing by
Greenwell Montagu Securities
of 1,400,000 Ordinary Shares of 10p each at 122p per share

Subscribed	SEMI CAPITAL FOLLOWING THE PLACING	Issued and now being
£280,000		issued fully paid
	Ordinary Shares of 10p each	£280,000

Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the entire share capital of the Company, issued and now being issued, in the United Securities Market. It is emphasised that no application has been made for these securities to be admitted to listing.

Particulars relating to the Company are available in the Final Statistical Services. Copies of the Prospectus may be obtained during normal business hours on any weekday, Saturdays excepted, up to and including 3 December 1986, from the Company Announcements Office, The Stock Exchange, London EC2P 2BT and up to and including 14 December 1986, from:

Greenwell Montagu Securities,
Bow Bellis House, Broad Street,
London EC4M 3EL

1 December 1986

Company Notices

Hoechst

LONDON DEPOSIT CERTIFICATE

S.G. Warburg & Co. Ltd. as Depository, hereby gives notice to Holders of London Deposit Certificates that Resolutions were duly passed at a Meeting of Certificate Holders held on 7th November, 1986, that firstly, a new form of London Deposit Certificate be adopted forthwith and secondly, that existing Certificates must be surrendered in exchange for Certificates in the new form.

Each Certificate Holder must now forthwith surrender to the Depository his London Deposit Certificate(s) and receive in exchange without payment, one or more London Deposit Certificate(s) in the new form with 35 Coupons and a falon attached covering the same number of shares as the Certificate(s) surrendered, at the office of:-

S.G. Warburg & Co. Ltd.
Paying Agency, 5th Floor,
1 Finsbury Avenue,
London EC2M 2PA

1st December, 1986

PUBLIC NOTICE

It is proposed to close down the Southall (London) branch in UK of Punjab and Sind Bank and vest the assets and liabilities of the branch in the Bank of Baroda as at the close of business on 31.1.87.

This is being done with a view to consolidate and rationalise the operations of the branches of Indian banks in the UK. The dues of the depositors and creditors will be met in full. The existing depositors of Punjab and Sind Bank may avail of the facility of continuing their accounts with the transferee bank.

The former bank will issue suitable advices in this regard in due course.

Sd. Dr. K. K. Mukherjee
Chief Officer, DBOD
Reserve Bank of India.

N.V. MINMAATSCHAPPIJ CURAÇAO

established at Amsterdam

With reference to the amendment of the conditions of Administration, dated 25th June 1986, the undersigned advises that as from 1st December 1986, depositary receipts of the A1 share in the denomination of one receipt will be obtainable at the Head Office of Bank Mees & Hope NV at Amsterdam.

Amsterdam, 1st December 1986

Trust-Maatschappij
Curaçao I.B.V.

REPUBLIC OF INDONESIA

US\$200,000,000 FLOATING RATE NOTES

DUE 1992

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the period from 28th November 1986 to 28th May 1987 has been fixed at 8.25% per cent per annum.

On the 28th May 1987 interest of US\$37.38 per US\$10,000 nominal amount of the Notes and interest of US\$704.46 per US\$20,000 nominal amount of the Notes will be due against interest Coupon No. 10.

SWISS BANK CORPORATION
INTERNATIONAL, LIMITED
Reference Agent

£16m training simulators for British Airways

REDIFFUSION SIMULATION has won one of the biggest orders ever awarded for commercial flight simulators to supply British Airways with three simulators for its new Boeing 747-400 aircraft fleet. The order is believed to be worth a total of £16m. It includes a full flight simulator and a fixed base flight simulator, both of which will be used in conversion and recurrent training for the airline's pilots, and a ground maintenance simulator which

will be used to train engineering crews in a wide range of ground maintenance procedures. All three will be installed at BA's Heathrow flight and engineering training centres by autumn 1988 in anticipation of the first new aircraft delivery scheduled for March 1988.

Visual stimulation of the outside world is expected to be achieved using the Novoview SP-X 800HT computer generated image system on which BA currently holds an option. SP-X,

demonstrated at this year's Farnborough Air Show, provides a realistic representation of real world airports, environments and operating conditions. The fixed base simulator is designed to allow upgrade to a full flight simulator, by the addition principally of motion and visual systems, as training needs develop.

In the host computer for the new simulators, Rediffusion will be working with BA on the future development of the

unit operating system to be used in association with Gould Concept 32/67 and 27 processors and reflective memory hardware. The full and fixed based simulators will be built at Rediffusion's Crawley factory with the ground maintenance simulator being built at its Aylesbury plant. British Airways has ordered 16 Boeing 747-400s and holds options for an additional 12 aircraft. Rediffusion Simulation is part of BCI.

IN BRIEF

W. H. ALLEN, part of NIELAPE, in turn part of Northern Engineering Industries, has obtained a repeat order worth £3m from the Indian Oil Corporation for a further six crude oil-burning 8-cylinder-type 837 engines, to drive crude oil pumps on the Salaya to Mathura pipeline in north-west India.

British Telecom, one of ICL's largest private sector customers, has placed an order for ICL Series 39 mainframe systems, terminals and maintenance service, worth £2m, and linked to the contract obtained

by ICL in 1985 for similar, advanced equipment for British Telecom's customer service systems. It provides British Telecom's inland communication division with ICL Series 39 Level 80 mainframes being installed in Edinburgh, Rochdale, Cambridge and St Albans.

A \$5m order has been placed with Orenda, the Canadian subsidiary of HAWKER SIDDELEY of the UK, for the manufacture and supply of jet engine turbine nozzles, by the Lycoming division of Avco Corporation of the US. Orenda

turbine nozzles are fitted to Avco-Lycoming ALF 502 engines which are supplied to British Aerospace to power the BAe 146 commuter aircraft.

National Provident Institution (NPI), the UK life assurance and pensions concern, has purchased a HONEYWELL large scale DP500/91 mainframe computer, valued at £2.5m, to develop on-line systems and provide service to intermediaries and customers.

BLACK CLAWSON INTERNATIONAL, Newport, has

signed three contracts worth £3m with the Chinese Government to supply equipment for a process line for turning bamboo into packaging grade material.

WARMAN INTERNATIONAL of Tadmorden in Lancashire has been awarded its largest single contract, worth more than £2m, for the supply of pallet assemblies to Lurgi (UK) for installation at the British Steel Corporation, Scunthorpe, UK. The assemblies are for two new 4 metre wide sinter strands which will produce 60,000 tonnes per week of sinter.

Art Galleries

- COLNAGHI, 14, Bond Street, W1. 01-491 7408. An exhibition of OLD MASTER PAINTINGS. Throughout December, Mon-Fri, 10-5.30; Sat, 10-4.
- LEFEVRE GALLERY, 20, Wimpole St, W1. 01-493 2107. IMPRESSIONIST PAINTINGS AND DRAWINGS. Until 18 Dec. Mon-Fri, 10-5; Sat, 10-12.30.
- LEGGER, 15, Old Bond St. ANNUAL WATERCOLOUR EXHIBITION. Mon-Fri, 10-5.30; Sat, 10-12.30.
- OWEN, 15, Old Bond St. Duff Street. OWEN'S GALLERY. SW7. 01-493 7222. PAINTING. Mon-Fri, 9.30-5.30; Sat, 10-1.
- THE ARTS COUNCIL, 21, Old Bond Street. W1. 01-493 3529. 21X & 22X CENTURY PAINTING. Mon-Fri, 10-6; Sat, 10-12.30.
- SARAFI GALLERY, 1, Grosvenor Gardens. SW1. 01-264 6612. ESTABLISHED 1972. PAINTING. Mon-Fri, 10-5; Sat, 10-12.30.

Clubs

RYA has notified the others because of a shortage of bar staff and water for recovery. Sessions from 10-12.30 am. Once and two sessions. 189, Regent St. W1. 01-734 8597.

Do you know the one about the Chinese, the Scot and the Belgians?



The Chinese was refurbishing a furniture factory. Importing a large amount of foreign equipment to be paid for in hard currency. But the factory only produced for the domestic market.

Problem. He had no exports with which to recoup the outgoing currency.

He came to Generale Bank in Beijing. They contacted the Foreign Trade Promotion Department of their Head Office in Brussels, and asked about possible customers. Belgium occupies a prominent position in the furniture market. Not surprisingly the answer came back the same week.

Enter the Scot. Her company badly needed a new supplier. It was the perfect match.

Generale Bank made the introduction, then structured and financed the deal. The Scot got her supplies and the refurbishment went ahead immediately.

We did it for them and we can do it for you.

Generale Bank
Montagne du Parc 3, B1000, Brussels, Belgium.



MONDAY DECEMBER 1st

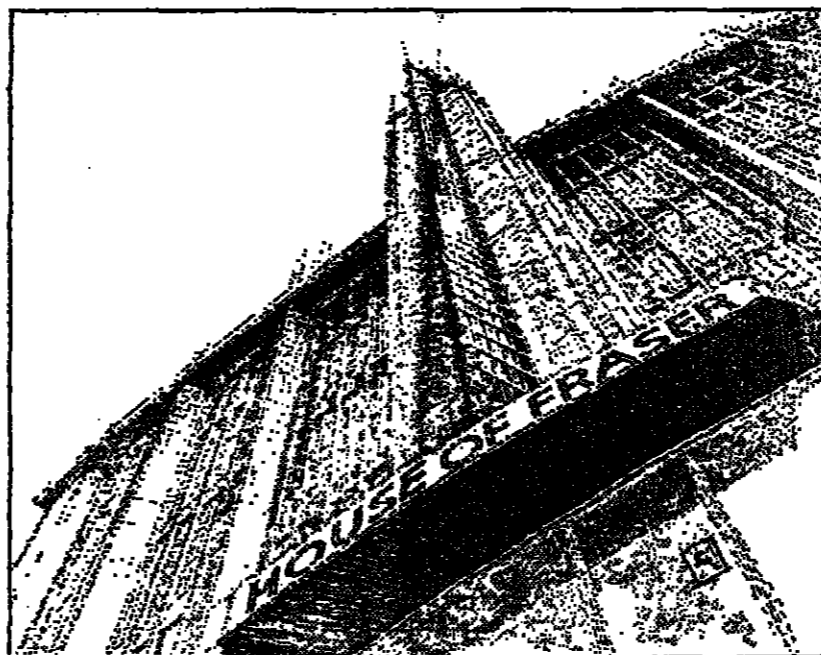
THE OTHER BIG BANG:

House of Fraser is about to do to department stores what the first Big Bang did to finance.

We're going to change the rules, break out of the straight jacket of tradition and create the radically different shopping environments demanded by the twenty first century.

The first of these in London will open at noon today in Kensington High Street.

You are then invited to step across the threshold into the future. Into a department store like no other you've ever seen before. But which, in years to come you will increasingly see in the High Streets of Great Britain. You will know them by the name above the door, House of Fraser. And the fact, perhaps, that unlike the revolution in the City, ours will be something to shout about from the very first day.



HOUSE OF FRASER

KENSINGTON HIGH STREET

THE START OF A NEW ERA IN DEPARTMENT STORES

THE MONDAY PAGE

FORTUNE MAGAZINE recently called him America's most successful entrepreneur, but he much prefers to be labelled a professional manager.

These are just a few of the contradictions in Mr Ken Olsen, the quirky, 60-year-old electronics engineer who in the last 29 years has built Digital Equipment Corporation from nothing to become IBM's most formidable competitor.

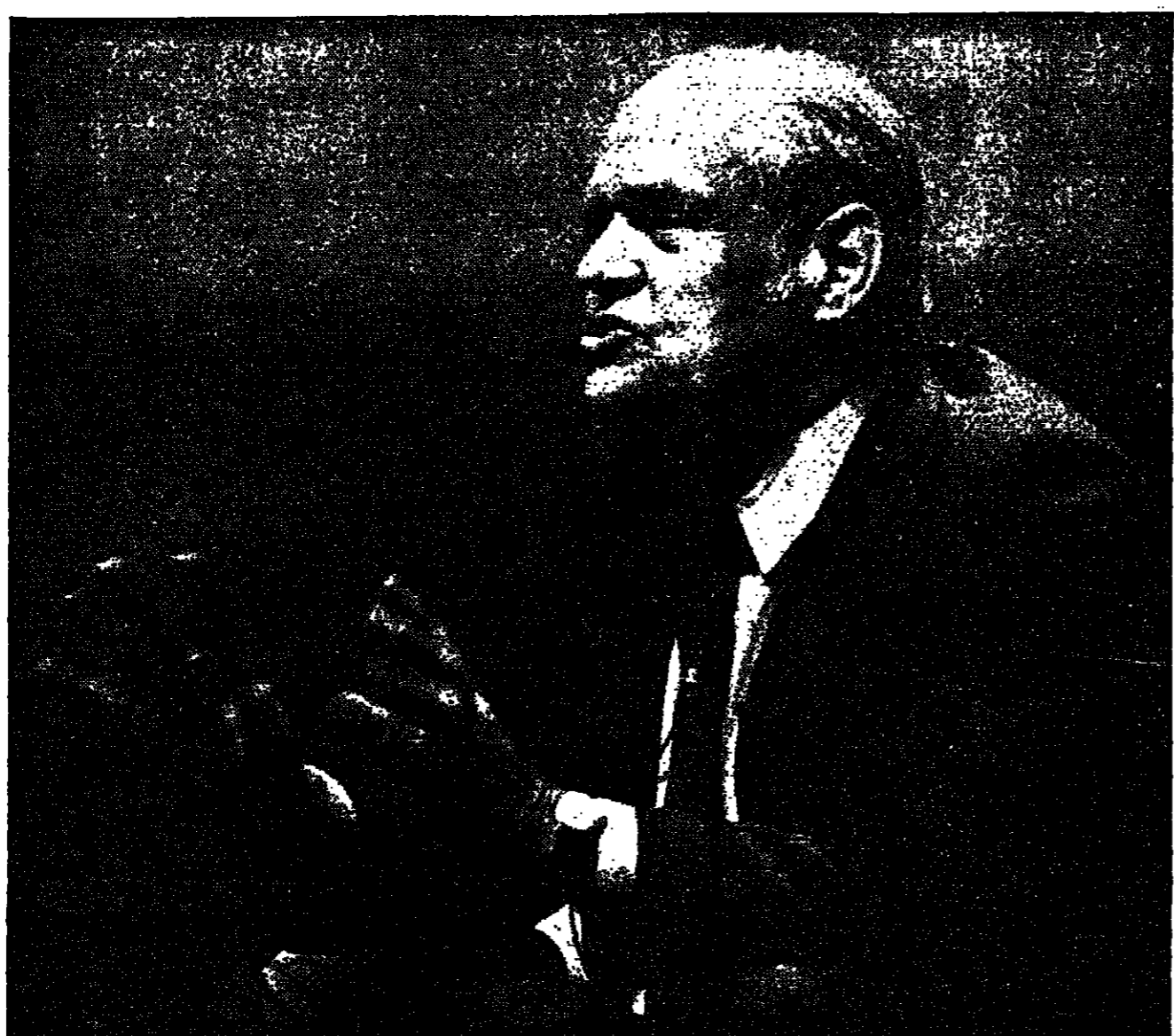
Just one example of this oddly tangential, unexpected approach to business is his attitude to IBM, the computing giant which casts a heavy shadow over every other company in the business.

DEC's growth in the brief quarter-century since Olsen and five partners set up shop in the corner of an old Massachusetts textile mill is the epitome of the American business dream.

The mini-computer, a small, robust machine designed for scientists and engineers like themselves, was an immediate smash hit. It opened an entire new chapter in the history of the computer industry.

Scores of start-up companies in the burgeoning US computer and electronics industries have since mirrored DEC's success.

Long ago, this extraordinary record of growth turned Olsen into a multi-millionaire—with 2 per cent of the company, his stock is worth over \$200m today.



INTERVIEW

The man who made IBM pay to catch up

Terry Dodsworth talks to Ken Olsen, head of DEC.

US entrepreneurs generally manage to squeeze out of their backs. But in many ways, Olsen is not a typical high-tech entrepreneur—and DEC, which more than most companies reflects its founder's personality, is an equally uncharacteristic high-tech business.

Perhaps the most palpable impression visitors bring away from DEC is of an organisation where everything is deliberately understated. The company has a much lower profile than smaller but more glamorously presented groups such as Wang or Apple.

While he does not avoid publicity, Olsen does not go out of

his way to court it either, and seems unconcerned about his public image. Commenting on a period when the company came under withering attack four years ago, he says that "being beaten up by the Press, sometimes quite unfairly, was a big advantage, because it brought everyone together."

Behind this detached, otherworldly attitude, however, there is a bubbling enthusiasm for computers and what can be achieved by finding more and more uses for them.

DEC's fabulous growth spurt against the tide in the industry has since totally vindicated the reorganisation. What the company has done with its new range of machines is to make it possible to link various types and sizes of products in a network which spreads computer power throughout an organisation.

This mixture of personal modesty and rock-hard conviction has frequently puzzled and disconcerted observers, and it has clearly contributed to the group's unconventional management style. Until very recently, DEC has been run in a collegial spirit.

While he may not impose his attitudes, he concedes that four years ago he had to act to resolve a crisis and give the company new direction. It was in this period that DEC reached its lowest ebb.

disease—the inability to see the need for change.

Far from being inactive, however, Olsen was at that time struggling to introduce a more centralised, conventional management system. It was a wrenching episode, dragged out over many months as he stubbornly pushed the issues through committee, often against the opposition of people who had helped him build the company.

Characteristically, he describes his part in this reorganisation in muted terms. The policies had been agreed, he says, but DEC being a "free-wheeling, undisciplined organisation," was not following them.

DEC's "fabulous growth spurt against the tide in the industry has since totally vindicated the reorganisation. What the company has done with its new range of machines is to make it possible to link various types and sizes of products in a network which spreads computer power throughout an organisation.

But he refuses to be drawn on how effectively DEC can challenge IBM, a company which is seven times its size. That he is typically sharp swing of sentiment has pushed IBM into the dunce's corner occupied by DEC four years ago.

PERSONAL FILE

1924: Born in Stratford, Connecticut. 1944: Service in US Navy. 1947: Entered Massachusetts Institute of Technology. Graduated as electronics engineer. 1950-1957: Research worker in MIT computer laboratory. 1954: Secondment from MIT to IBM. 1957: Founded DEC with five partners. 1960: Young electronics engineer of the year. 1970: US businessman of the year.

Goodbye to all that Good Sex

JOHN LLOYD

TODAY, DECEMBER 1, sees the opening of the retrospective season, the annual "that-was-the-year-that-was" period in journalism. Here is an early entry.

Nineteen-eighty-six has been the Year of Bad Sex. It has opened up the question, now being thrashed through at bar counters and dinner tables, of whether or not this is the beginning of the era of bad sex.

The Good Sex Era, which depended largely on widely available and (for men) safe and trouble-free contraception, saw a general acceptance of the view that sexuality was benign, and that the more the better.

Others are a hopeless mixture of seriousness and hype. Ms Esther Rantzen of the BBC has put the problem of child abuse—very often sexual abuse by a parent, most assuredly a father—before the public mind through "Childwatch."

subterranean world of youthful misery.

Yet resentful members of the "caring" professions have been growing that this blitz is merely another neon-lit one-night stand for the rootless media circus leaving a trail of impossibly aroused expectations behind it.

For all that, though, the violation of children and of women is now exposed to debate and posed as a problem with which society and its managers are enjoined to deal.

The signs of the times are all around. A spate of books—Germaine Greer's "Sex and Gender," Celia Haddon's "The Limits of Sex" and the most recent Liz Hodgkinson's "Sex is not compulsory," all counsel abstinence as preferable to bad sex.

AIDS has given all of this a huge boost. The frightening growth in the prevalence of the disease, the dawning realisation within the heterosexual majority that it is not simply a "gay plague," the shivering fear induced by photographs or descriptions of its victims.

It has also inserted itself into advances which the plaintiff may derive from invoking the English jurisdiction focuses on four major factors: damages are awarded on a higher scale in England than in most other countries.



First and last instance



JUSTINIAN

THE Master of the Rolls, Sir John Donaldson, is not the only senior judge who is tackling the prolixities of legal proceedings in appellate courts.

In Spliada Maritime Corporation v Consuelo Ltd the Law Lords have put down a marker in favour of the use of appellate courts to allow parties to indulge their litigious appetites.

Where the initiator of legal proceedings is entitled to begin his action in England, the courts here will stop him in his tracks only if his opponent can establish that some other available forum for resolving the dispute is the more appropriate.

favourable to their cause. The shipowners and their insurers thought differently. Other cases throw up conflicting evidence, about which optimistic and gloomy assessments of expense, delay and inconvenience vie with each other to attract or distract the court in looking for indicators of one solution rather than another.

The key to the solution lies in the underlying principle. The judges have to consider where the case may be tried "suitably for the interests of all the parties and for the ends of justice."

Perhaps the most telling factor is currently the discovery of documents. There is a spectrum of systems of discovery available in various jurisdictions, ranging from limited disclosure available in Western European countries, to the ample—some would say excessively generous—procedure for discovery in the US.

colleague of mine listened with awe to a group of rather drunk courtiers having a conversation about the need to carry condoms (Woman's Own magazine last week offered a free packet to all its readers).

In "The Making of the Modern Family," Edward Shorter writing in the still-good-sex times of the 1970s says that in the 1980s the chances were very high that young people who felt attached to each other would extend their relationship to the sexual domain.

Will it become too scary to be thinkable in times future? Perhaps, Shorter also believes that increased pre- and extra-marital sexuality is a function of the loosening of community ties and inter-generational bonds consequent on rapid industrialisation from the mid-18th century; and these bonds are looser now than ever.

And that would have been unthinkable in times past. Will it become too scary to be thinkable in times future? Perhaps, Shorter also believes that increased pre- and extra-marital sexuality is a function of the loosening of community ties and inter-generational bonds consequent on rapid industrialisation from the mid-18th century; and these bonds are looser now than ever.

Manufacturers Hanover

is pleased to announce the opening of an

International Private Banking Office

at

Manufacturers Hanover Trust Company Grosvenor Square Branch

88 Brook Street London, W1A 4NF (44 1) 600-5666

Nicholas G. Handras Vice President and Manager

Keith Dixon Assistant Vice President



The International Private Banking Group

Final AR 1986

The Award

The Financial Times Award for Best Building in the World 1986. The award is given to the building which is judged to be the most successful in the world in terms of design, construction and cost.

WINNER: Maggot Reservoir, Scotland. Other nominees include: W. J. Chivers & Co., London; and others.



- List of other nominees and winners for various awards, including Lemnox Wood, South West Sussex; J. Sainsbury plc, Supermarkets; and others.

For a free

Financial Times

ARCHITECTURE AT WORK

1986 Award for Industrial and Commercial Buildings

The Award

The Financial Times Architecture at Work Award for 1986 has been given to the **Megget Reservoir and Control Building**, near Selkirk in Scotland, and the assessors wish to include in the prize the white lower spillway that sits in the lake, the stilling pool, the dam itself and the whole composition of the giant landscape of the scheme.

The stone and steel entrance gates, the portal in the hillside that leads to the waterpipes to Edinburgh and the entrance to the Control Building are all consistently carried out in a well-composed development and enlargement of the local drystone wall vernacular. The Control Building is below the surface of the dam which allows the dam to be the major element in the landscape and permits wildlife and plant life the same opportunity to colonise the valley as it had before.

The Control Room is itself very well designed and is connected to the elegant white tower by a blue tunnel and in the other direction down to the very effective (literally and in landscape terms) stilling pool, whence the bum proceeds down the valley.

All the elements combine together to contribute and respond to the large scale of the lake and the beautiful surrounding landscape; good in the detail of their design, and good as the parts of a bold whole. The assessors are happy to give the Award to this scheme.

In 1986 the assessors were architects Edward Cullinan and Richard Rogers (until August) with Lord Gibson as the layman.

WINNER

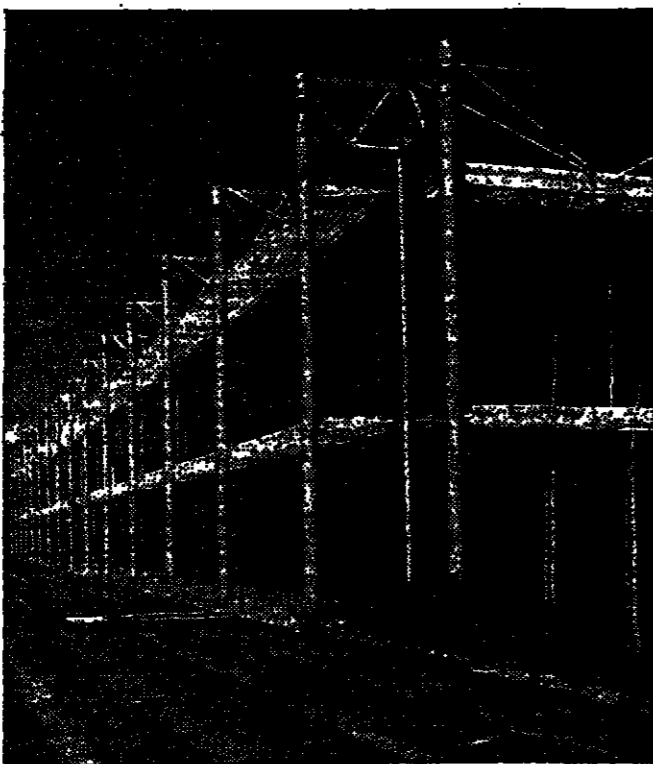
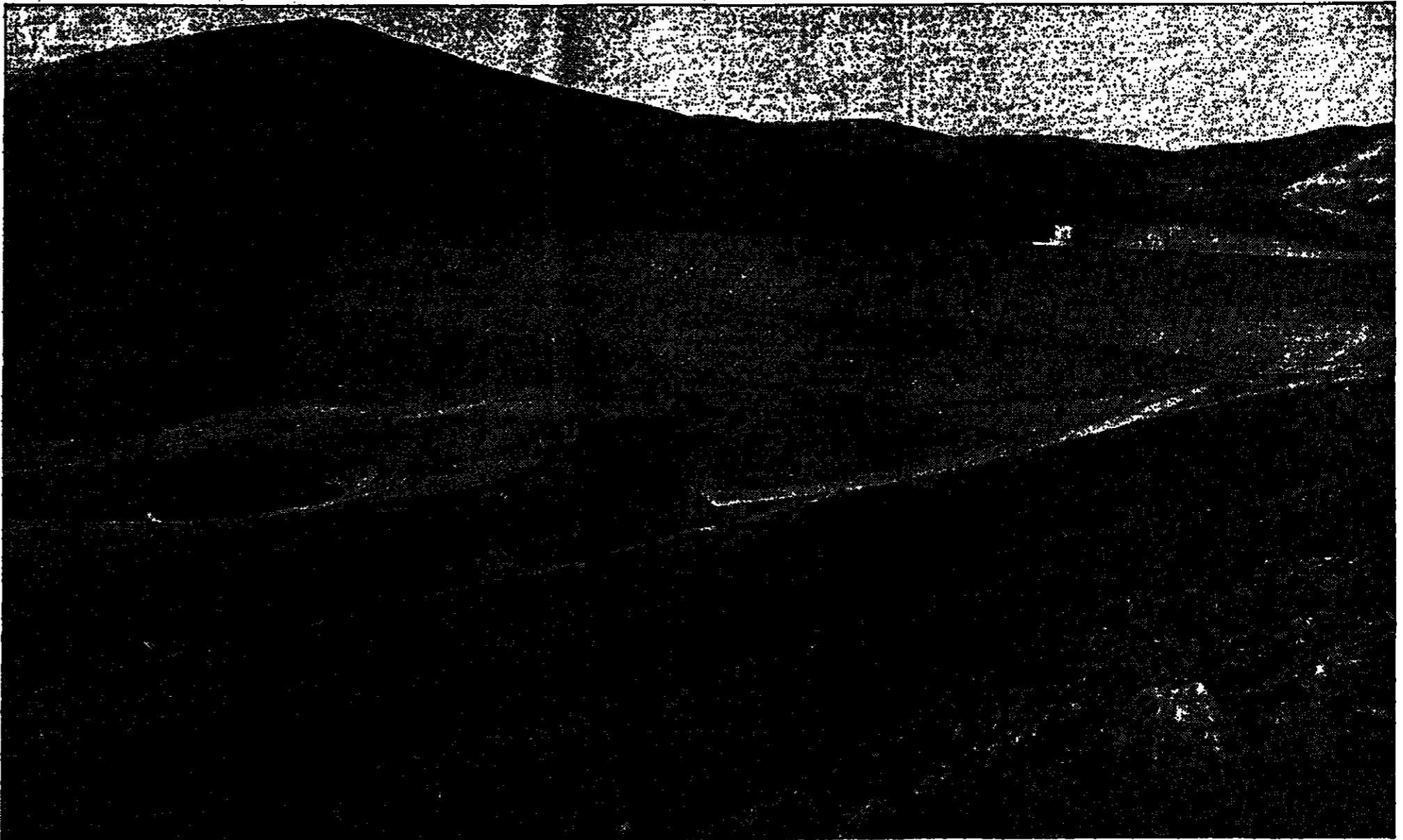
1 Megget Reservoir and Control Building, Coppershuck, Selkirk, Scotland

Architect: W.J. Cairns & Partners

Engineer: R.H. Cuthbertson & Partners

Client: Lothian Regional Council

Contractor: Whetings (CMI Engineering) Ltd



2

2 Lennox Wood, Southwater Business Park, Horsham, Sussex

Architect: Michael Aukett Associates

Engineer: Anthony Hunt Associates

Client: Sun Alliance Insurance Group

Contractor: IDC Limited

3 J Sainsbury plc, Supermarket, Kingsmead Road, Canterbury, Kent

Architect: Ahrends Burton & Koralek

Engineer: Ernest Green & Partners

Client: J Sainsbury plc

Contractor: Wiltshier Ltd

4 Link Centre, Whitehill Way, Westlea, Swindon, Wiltshire

Architect: Thamesdown Borough Council, Architects Department

Engineer: Anthony Hunt Associates

Client: Thamesdown Borough Council

Contractor: Bovis Construction Limited

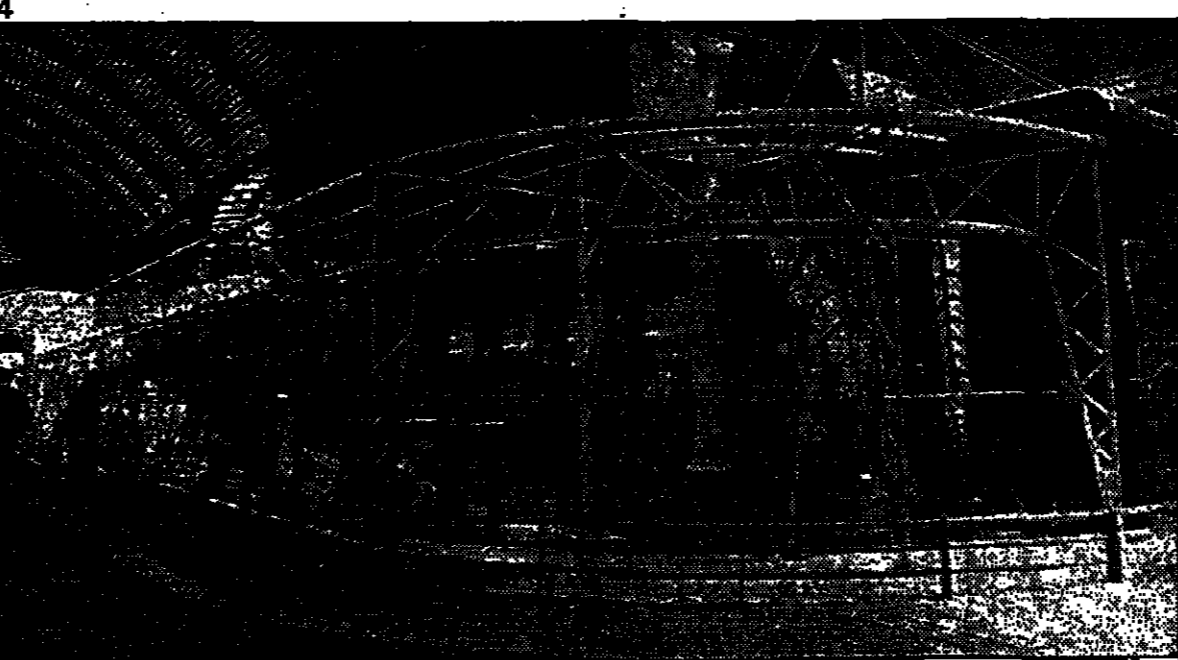
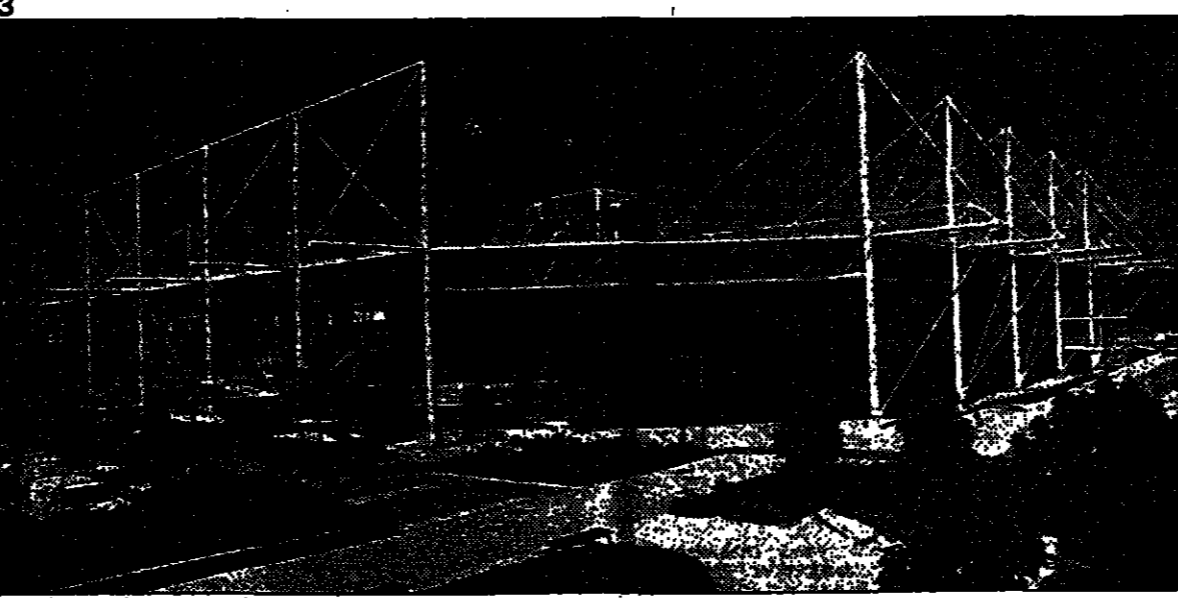
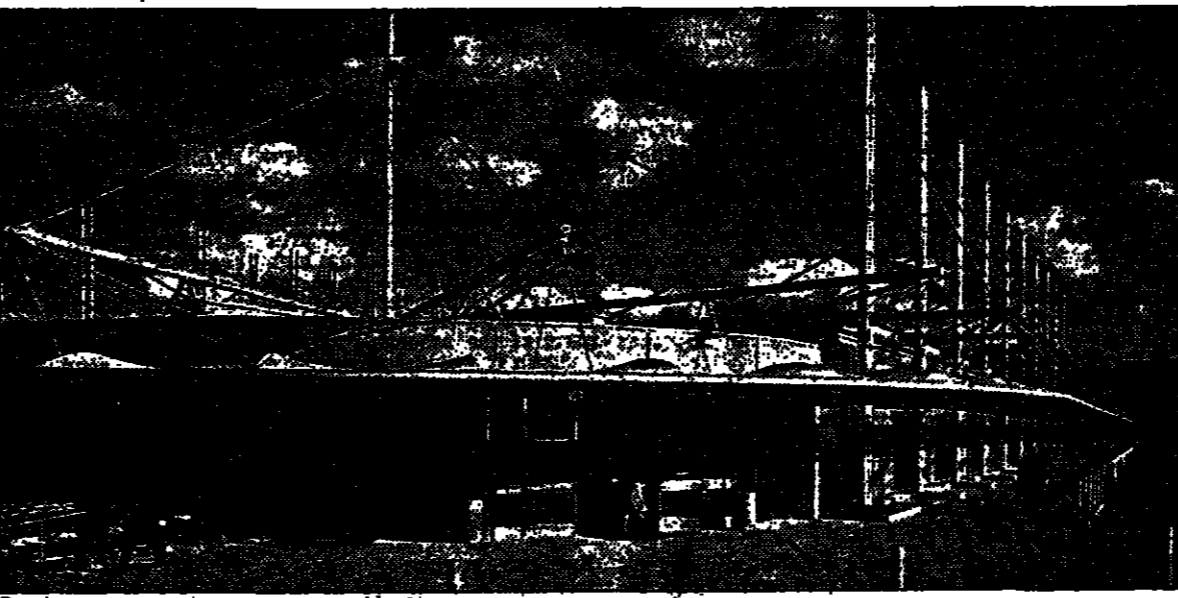
5 Newcastle Travel Centre, Central Station, Newcastle-upon-Tyne, Tyne and Wear

Architect: Regional Architect's Office, Chief Architect's Department, British Railways Board, York

Engineer: Regional Civil Engineer, British Rail Eastern Region

Client: British Railways Board

Contractor: Shepherd Construction Ltd



5

Commendations

The **Link Sports and Social Centre in Swindon** is commended for its asymmetrical composition of many varied elements under the great canopy of a suspended, rectangular and mono-planar roof. The skill and high speed with which the building was designed and built is reflected in the infectious enthusiasm of its occupants, which extended as far as push-starting the jury's car swiftly and effectively at the end of their visit.

The reason that it was not given the prize is partly a result of this very quick pace of design, construction and occupation, resulting in a certain amount of rather inconsistent detailing and some clumsy junctions.

The assessors also commend the **Sainsbury's supermarket at Canterbury** for its powerful external roof structure of silver masts, spars and ties, both well designed in its own right and as a complement to the Cathedral. This lovely roof structure also serves to make an excellent elevation along the main front and is completed by the addition of a very elegant tensioned pedestrian canopy. However, the assessors were a little disappointed by the other sides of the building which actually form fronts to other roads in the town, and the interiors of the service areas were poorly detailed and finished.

But the commendation stands firmly on the notable achievement of responding inventively and elegantly to a numinous environment without the pastiche so often favoured by supermarkets.

The **Sun Alliance building at Lennox Wood**, near Horsham, is commended for its calm, almost Palladian quality in the landscape of a major new public park, including its delightful use of the old device of the 'ha-ha'. The building also has smart and comfortable interiors and provides an excellent working environment.

The realisation of the simple cross structure of the building is more suited to its glass elevations than to its opaque ones and it has some difficulty going round the corners of the L shaped plan: but the building serves as a fine example for future Company Headquarters in country or suburban settings.

The assessors also wish to commend one further building, which in some senses is not a building at all, but a clever insertion. The **Newcastle Travel Centre** is placed plumb in the middle of the restored 19th Century railway station. It has neither the somewhat temporary quality of so many of the post-war insertions into our great stations, nor does it seek to repeat or copy the station itself; rather it is its own bold, tensile and joyful self, in scale with and a complement to the fine building in which it sits.

The Financial Times wishes to thank all the entrants for the time and trouble they took and to encourage them and the sponsors to keep up their high standards.

For a free copy of the illustrated Award brochure send a stamp addressed A4 envelope to: FT Architecture Award Brochure, Financial Times, Bracken House, 10 Cannon Street, London EC4P 4BY.

THE ARTS

Dagmar Krause/Elizabeth Hall

Andrew Clements

It has not been a good year for Brecht on the musical stage... Scottish Opera's Mahagonny and the National Theatre's Threepenny Opera do not leave many cherishable memories...

John Lill/Barbican Hall

Dominic Gill

John Lill's continuing lunchtime survey of the complete Beethoven piano sonatas... are three more recitals to come, on December 6, 9 and 12...

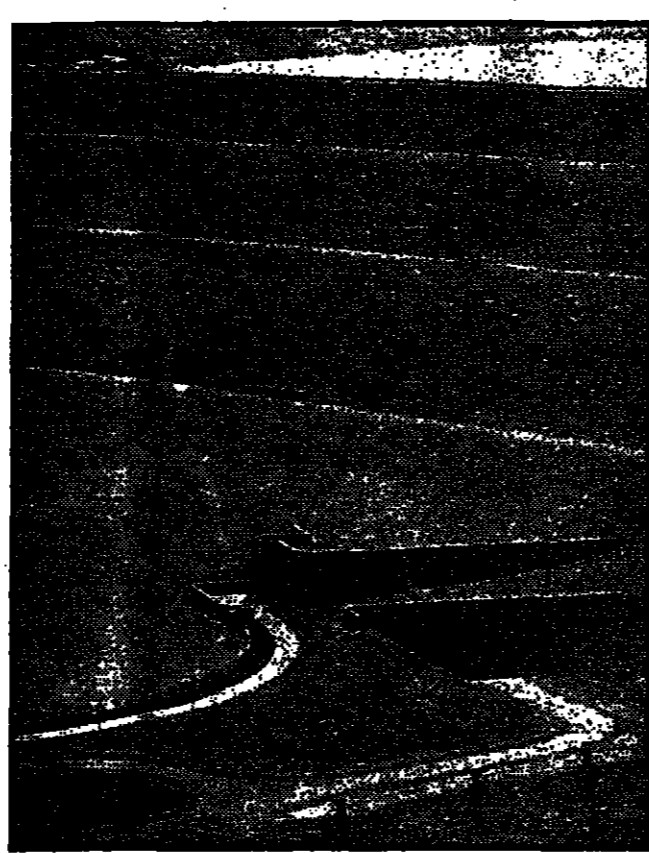
Arts news in brief...

Baron Thyssen has announced that the design submitted by British architect James Stirling... Prince Siegfried in three performances of Tchaikovsky's Swan Lake...

FT Architecture at Work Award/Colin Amery

1986 winner achieved the right balance

This is the fifth year of the Financial Times Architecture at Work Award. It has been another good one, although it is probably true to say that the crop of buildings represents a generally higher than average dedication to the raising of design standards in the workplace...



The Megget Reservoir, Selkirk, Scotland

This year's winner is the Megget Reservoir and Control Building, near Selkirk in Scotland. It is a major project, costing some £25m. Work started 10 years ago to build the highest dam in Scotland which, now finished, is more than 180 ft (56 metres) high and stretches for a third of a mile across the valley...

Such care and concern is what is needed in the inner city and everywhere that man's activities dictate the shape of his environment. The FT Award was founded to promote a higher level of environmental concern in all kinds of places where people work. The care the architects and engineers have taken at the Megget Reservoir makes it a very worthy winner of the 1986 Award.

In Canterbury the assessors were favourably impressed by the lively design of the Sainsbury's supermarket. This was the result of a competition and was designed by Ahrends, Burton and Koralek with the engineers Ernest and Partners. It is a powerful representative of an organisation keen to raise architectural standards for a type of building which is, by its nature, difficult to fit in to the environment...

Petteri Salomaa/New Zealand House

Andrew Clements

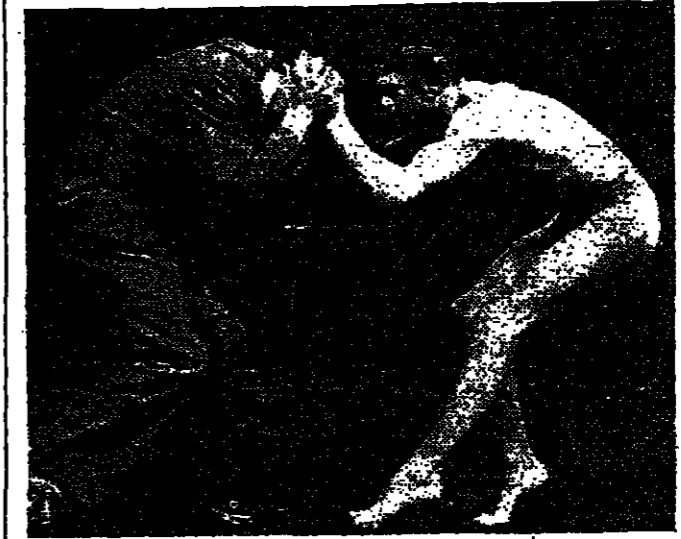
The distinguished line of baritone and basses that has emerged from Finland is continuing in the person of the young baritone Petteri Salomaa. He gave his first London recital last Thursday, accompanied by Richard Mapp, at New Zealand House...

Salomaa's is not at all like that; though his physique may yet all out into the imposing frame that traditionally accompanies such a sound, his tone is light and flexible, but still capable of an impressive extension into the lower reaches of the bass clef. His short programme made a little uncertainty with "Leave me, loathsome light" from Handel's Semele, taken with a very measured gait and never moving with assurance.

A Mouthful of Birds/Royal Court

Michael Coveney

The Bacchae is a great play that changes colour every day. Dionysiac ecstasy interpreted as hysteria emanating from a cult of violence. In the past two decades, the orgiastic impulse has been claimed as a mode of free theatrical expression. Now Joint Stock, in this fascinating cabaret, scripted by Caryl Churchill and David Lan, directed by Ian Spink and Les Waters, grapple with the underside of urban aspiration while rising total poetic resettlement of Euripides...



Philippe Giraudeau and Stephen Goff

The Bernoulli Effect/Oval House

Martin Hoyle

The women's theatre company Burnt Bridges is in residence at the Oval House in Kennington, across the road from an even more famous arena. They are assisted by Lambeth Arts Council; given that borrowing and so on, it is a ruddy road and pitted pavements is the erection of signs ineluctably welcoming us to a nuclear-free zone, one must concede that there are madder things to spend public money on...

Obituary/Cary Grant

Nigel Andrews

Cary Grant, the suave, wit-tiest romantic lead in the cinema's history, who died yesterday aged 82, had the unluckiest background for a Hollywood film star imaginable. Born Archibald Leach in Bristol, England, in 1904, he arrived on the West coast of the United States in 1932 with experience as a circus acrobat and minor English musical star; that, plus an accent that was untraceable then and remained untraceable. A sort of clotted, high class cockney, it could both caress and wisecrack. It was legal tender in sinister thrillers and screwball comedies. That voice proceeded, together with his good looks, manly elfin chin and impeccable grooming, to mark Grant out as the leading man every leading lady wanted. In his first three years in Hollywood he co-starred with Marlene Dietrich (Blonde Venus), Mae West (She Done Him Wrong) and Yvonne De Carlo (Katherine Hepburn (Sylvia Scarlett)).

"What's special about these Danish companies?"

ABN Bank Copenhagen Branch, Assurandør-Societetet, Barclays Finans A/S, Berlingske Tidende, Ekuboen, Bølden, Buch+Deichmann, Danish Steel Works Ltd., Danish Telecom International A/S, Danish Turmkey Dairies Ltd., Dannebrog Shipyard Ltd., AS De Danske Sukkerfabrikker, Doni AS, Duracel-Daimon APS, East Asiatic Co. Ltd. (AS Det Østasiatiske Kompagni), AS Elizabeth Arden, Ess-Food, F. L. Smith & Co. AS, Forlaget Management AS, Frisko Sol Is A/S, Ginge Brand & Elektronik A/S, Grønt Danmark A/S, Grundfos International A/S, Haldor Topsøe A/S, Hellerup Bank A/S, Henriques Bank Aktieselskab, Kredittoreningen Danmark A/S, Kommunedata, Mikrobank, AS Nitro Aluminer, Norsk Hydro Danmark a.s, Nykredit, Price Waterhouse, Privatbanken AS, Revisionsfirmaet C. Jespersen, Skandinavisk Tobakskompagni, Statsanstalten for Livsforlring, The Jutland Technological Institute, Aktieselskabet Værd Bank.

They are all regular readers of the FINANCIAL TIMES • European Edition. For further information about subscription rates in Scandinavia, please contact K. Mikael Heiniö in Copenhagen: 01-13 44 41

Arts Guide

- VIENNA: Brno Philharmonic Orchestra: Beethoven, Musikverein (Mon). Gwyneth Jones song recital with Geoffrey Parsons, piano. Schubert, Wagner, R. Strauss, Berg, Musilverein (Wed). Musica Antiqua, Clemencic Concert led by Rene Clemencic, Musikverein (Thu).

November 28-Dec 4

- WASHINGTON: National Symphony (Concert Hall): James Conlon conducting, Daniel Barenboim piano, Rudolf Frunzy piano, Beethoven, Stravinsky, Ravel (Tue); Charles Dutoit conducting, Florence Quivar mezzo-soprano, Kenneth Fliegel actor, John Cheek bass, Terry Cook bass, All-Berlin programme, Kennedy Center (25/27/78).

NEW YORK: New York Philharmonic (Avery Fisher Hall): Zubin Mehta conducting, Murray Perahia, piano, Beethoven, Bruckner (Thu), Lincoln Center (8/24/24). The New Bel Canto (Federal Hall): Shelby Hirsch performing a mixed repertoire, showing off a voice that ranges in sound from the Peking

Financial Times... The following is a list of... Trade fairs and... Business and Man... Obituary/Cary Grant... Arts Guide... November 28-Dec 4... Music... Vienna... Washington... Chicago... Tokyo... New York... London... They are all regular readers of the FINANCIAL TIMES • European Edition... 01-13 44 41

DIARY DATES

Finance

The following is a record of the principal business and financial engagements during the week...

- COMPANY MEETINGS: British Airways, British Petroleum, British Telecom, British Overseas Airways, British Airways, British Petroleum, British Telecom, British Overseas Airways...

Parliament

TODAY: Commons: Advance Petroleum Revenue Tax Bill, second reading...

TOMORROW: Commons: Opposition debate on "the scandal of insider dealing" and "the misery of fuel poverty"...

Parliament

THURSDAY: Commons: Remaining stages of the Advanced Revenue Petroleum Tax Bill...

FRIDAY: Commons: private members' motions.

Parliament

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APPOINTMENTS

Burmah Oil finance chief

At BURMAH OIL, Mr R. N. A. Wood has been appointed group finance director from January 1 and will be joining the board...

Mr John D. Elliott, chairman and chief executive of Elders IXL, Deputy chairman are: Mr Peter T. Bartels, managing director...

Mr Robert P. Wilson, head of planning and development at RTZ since January 1985, has been appointed a director of the RIO TINTO-ZINC CORPORATION...

Mr Leonard A. Bishop, Mr James Freer and Mr Frederick J. Gardner have been re-elected directors of ASSE EXHIBITORS...

Mr Lynne Farmer has been appointed a director of SOLER TOURISTS, wholly-owned travel subsidiary of Unicom. She was manager of the conference and incentives division.

Mr Federico A. Slinger has been appointed chairman of EURO-LATIN AMERICAN BANK, London, and Mr Louis de Bièvre has been appointed vice chairman...

Following completion of the sale of Courage by Hanson Trust to Elders IXL, the following changes to the board of COURAGE have been made...

BET has appointed as deputy finance director Mr John Griffiths, who joined the company in September 1985...

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table...

Table with columns: Company Name, Dividend Amount, Date, Announcement Date. Includes entries for Anglo Siam, Anglo American, Anglo Overseas, Anglo Pacific, Anglo Transport, Anglo Finance, Anglo Insurance, Anglo Services, Anglo Holdings, Anglo Investments, Anglo Properties, Anglo Enterprises, Anglo Industries, Anglo Resources, Anglo Assets, Anglo Liabilities, Anglo Equity, Anglo Debt, Anglo Capital, Anglo Revenue, Anglo Profit, Anglo Loss, Anglo Dividend, Anglo Share, Anglo Bond, Anglo Loan, Anglo Note, Anglo Certificate, Anglo Receipt, Anglo Ticket, Anglo Stamp, Anglo Seal, Anglo Mark, Anglo Sign, Anglo Stamp, Anglo Seal, Anglo Mark, Anglo Sign, Anglo Stamp, Anglo Seal, Anglo Mark, Anglo Sign.

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Trade fairs and exhibitions: UK

- Current: Royal Smithfield Show (01-235 6515), NEC, Birmingham. December 24: International Trade and Services Exhibition and Conference (01-787 1925), Barbican Centre. December 3-5: Mining Methods Exhibition (0223 7753), Harrogate. December 9-10: UK Congress/Tax Fair (0483 2123), Wembley Conference Centre. January 7-11: London International Boat Show (0532 5451), Earls Court.

Overseas

- December 9-14: International Agricultural Equipment Services and Technology Exhibition (01-891 5061), Paris. November 29-December 7: Handicrafts - The Domestic Culture Exhibition - Waim & Handwork (01-458 1951), Wembley. December 4-7: Autumn and Winter Ready-to-Wear Fashion Fair - PORTEX (01-458 0212), Porto. December 4-7: ICAFLA 86 - International Contemporary Art Fair (01-486 1861), Los Angeles. December 8-13: International Chemical Industries Exhibition - INTERCHIMIE (01-439 3964), Paris.

Business and Management Conferences

- December 1-2: FT Conferences: World Telecommunications (01-421 1355), Hotel Inter-Continental, W1. December 2: The Royal Aeronautical Society: The Airports Act - its effect on the air transport industry and users (01-489 5515), 4 Hamilton Place, W1. December 3-4: British Venture Capital Association: FT: Venture capital financial forum (01-421 1355), Hotel Inter-Continental, W1. December 4: Institute of Directors: Effective remuneration, current practice - future trends (01-535 3754), 116 Pall Mall, SW1. December 5: The Institute for Fiscal Studies: The Future of European Community Finance (01-436 3754), Park Court Hotel, W2. December 5: IBC: Back office systems after Big Bang (01-236 4080), The City Conference Centre, EC3. December 8: IBC: Assessing the US equities market (0823 55244), Inter-Continental Hotel, W1. December 9-9: Royal Institute of International Affairs: Energy 1986 - lessons from turmoil (01-830 2233), Chatham House, SW1. December 9: The Institute for Fiscal Studies: Privatisation and regulation (01-636 3754), St Ermin's Hotel, SW1. December 9: The Builder Group Building in partnership (01-535 2300), Hilton Hotel, W1. December 9-10: ERM Partnership: Subsea 88 Conference: Designing for Subseas; current and future trends (060884 252), Heathrow Penta. Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.



World Pulp & Paper Conference

11 & 12 December 1986, London

- Mr John Worledge, The Wiggins Teape Group Limited. Mr William IM Turner, Jr, Corcoalds-Behrlum Inc. Dr Hartwig Geginat, Fekmühls Aidsengesellschaft. Mr Bo Wergens, Swedish Pulp & Paper Association. Mr Erling S Lorentzen, Aracruz Celulose SA. Mr Fumio Tanaka, Oji Paper Company, Ltd. Mrs Norma Pace, American Paper Institute, Inc. Mr Ron Aurell, Jascido Popy Oy. Mr Jori Peonon, Valmet Corporation. Mr David A Clark, European Paper Institute. Mr Casimir Ehrnrooth, Kymmene-Storaengs Corporation. Dr Siegfried Meyssel, Leykam-Müller Papier und Zellstoff AG.

World Pulp & Paper Conference

Form for registration: Name, Title, Company, Address, Country, Tel., Telex, Type of Business.

Contracts and Tenders

ALGERIE - الجزائر

MINISTRY FOR ENERGY AND CHEMICAL AND PETROCHEMICAL INDUSTRIES

National Company for the Refining and Distribution of Oil Products (NAFTAL)

National and International Notice of Sale of Equipment for the Construction of a Refinery

NAFTAL is selling the following Refinery equipment: Eleven (11) Distilling Columns; Forty (40) Heat Exchangers and Water Condensers; Fifty-six (56) Air Coolers and Accessories; Two (2) Transformers 60/5.5 KV and 29.2 KVA.

All this equipment was designed and manufactured by Italian companies. Companies interested in the offer can write to NAFTAL, Direction Etudes et Developpement 132, rue de Tripoli Hussein-Dey, Algiers, or Telex to 65415 or 65416 to obtain specifications and details of viewing conditions of the above equipment.

Offers for all or part of the various items must be sent in two sealed envelopes to the above address within six (6) months following the publication of this Notice. The outer envelope should be plain and should read: 'Avis de vente No. 01/86 DED equipements de Raffinage. Confidentiel ne pas ouvrir.'

THE MINISTRY OF EDUCATION IN THE YEMEN ARAB REPUBLIC

Invites offers for

Printing and reprinting school text books, supply of equipment and chemicals for laboratories, teaching materials, white and coloured chalks, school furniture sets for primary, preparatory and secondary schools.

Particulars for the Tenders/Documents for the offers are available at the Yemen Embassy, 41 South Street, London W1, upon a non-refundable payment of the equivalent of US\$100 for each part of the Tender.

Bids will be received by the Ministry of Education, Purchase Department, until the 31st December, 1986, and will be opened in public at 10.00 a.m. Sana'a local time on the 3rd January, 1987.

Barbican Centre

The Barbican Centre provides London with a major complex of theatres, Concert Hall, Cinema, Art Gallery, Public Library and Conference and Exhibition facilities. This prestigious complex is owned, funded and managed by the Corporation of the City of London.

CATERING CONTRACT

The contract encompasses 3 Public Restaurants, 1 Staff Restaurant, 11 Bars, 1 Wine Bar, Coffee Points, services to 2 Exhibition Halls and extensive function catering. Turnover in the year 1985/86 was circa £4.21m. The contract is for the provision of all catering services, within the Centre for a five-year period commencing 6 January 1988.

The Corporation of the City of London will be inviting tenders for the provision of catering services. Established catering contractors should notify their interest in writing to:

The Director, Barbican Centre (CATCON), Silk Street, London EC2Y 8DS. Notification to reach The Director by 12 December 1986.

BUCKINGHAMSHIRE COUNTY COUNCIL SUPPLY OF TELEPHONE SYSTEMS

Tenders are invited for the supply of a number of SPC based telephone systems for installation at various County Council locations over a 12 month period. Requirements vary in configuration but will not exceed 25 exchanges and 200 extensions (for systems of greater size individual tender exercises will be undertaken).

Invitation to tender documents can be obtained from: Mr J. J. Turner, County Secretary and Solicitor, Buckinghamshire County Council, County Hall, AYLESBURY, HP20 1UA. Tenders are to be returned by 12.00 noon on December 15th, 1986.

COMMONWEALTH OF AUSTRALIA Request for Tender

The Purchasing and Disposal Division of the Department of Local Government and Administrative Services is to dispose of Rolls Royce engines and spares. There are 110 of these V12 petrol engines for sale. The engines are a derivative of the famous Merlin aircraft engine. Special tools, testing equipment and spares for the engines make up 86 separate lots. Also on offer are Rolls Royce 580 and 640 engine spares, Morris engines and spares and David Brown 231 gearboxes. As the Commonwealth will never again require these items it is desired to buy the following unique equipment:

- Group A - 2 Frauds DPTV 5 engine test bed dynamometers. Group B - 110 Rolls Royce Meteor MK 48 V12 petrol engines. Group C - 75 David Brown type 231 mechanical gearboxes. Group D - 10 sets of David Brown 231 gearboxes. Group E - 10 sets of Rolls Royce Meteor main engine spares. Group F - 10 sets of Rolls Royce Meteor magneto ignition spares. Group G - 10 sets of Rolls Royce Meteor fuel system spares. Group H - 10 sets of Rolls Royce Meteor lubrication system spares. Group I - 10 sets of Rolls Royce Meteor induction and cooling spares. Group J - 10 sets of Rolls Royce Meteor clutch spares. Group K - 10 sets of Rolls Royce Meteor 640 No. 1 MK 5F engine spares. Group L - 10 sets of Morris USHNM MK 2/1 engine spares. Group M - 10 sets of Morris USHNM MK 2/1 engine spares. Group N - 10 sets of Morris USHNM MK 2/1 engine spares. Group O - 4 lots of Rolls Royce Meteor special tools. Group P - 149 USHNM MK 2/1 engines.

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INSIDER TRADING

Doubts as the dragnet widens

By Clive Wolman

Britain's EEC presidency

One month to go in Britain's six-month presidency of the EEC, and its record so far looks patchy. Achievements on the major issues of the Community agenda—especially reforming the Common Agricultural Policy, and swifter progress in scrapping national barriers to the Common Market, are very few in number.

Mrs Thatcher is pinning her hopes on two meetings this week to quicken the pace. The trade ministers, meeting in Brussels today, have a chance to approve a package of market measures and the heads of Government of the member states could lend their weight to faster progress at their summit in London at the end of the week. However, really significant results at this late stage of the UK presidency are probably too much to expect.

Great fanfare

When the British Government took over the chair from the Netherlands in July, its ambitions were decidedly modest. Those who spend their lives in the hot-house of the 12-nation negotiations in Brussels know that the Community is not an organisation which can suddenly change direction, or produce startling new initiatives. Efficiency and diplomacy were to be the hallmarks of the British term in office.

Back home, however, there has been a tendency to get carried away with public relations hype—the temptation to see the presidency as the chance to put one's stamp on Europe. A British initiative was launched with great fanfare to tackle unemployment, although it contains little more than familiar ideas. Much of the "roll call" action programme agreed with the Netherlands and Belgium (the next president) to co-ordinate 18 months' work to break the backlog of internal market decisions. There would be a new deal on airline competition as a key part of the process.

In the real world, the progress has virtually all been on the broker's side. The bumper of EEC law such as external trade negotiations, and the annual budget round; and on issues off the formal agenda, such as co-ordination of the arms control and terrorism.

The tortoise-like movement on the internal market, in spite of redoubling the negotiating effort at official levels, has

Realities rule

The lesson, thus far at least, is that careful preparation and diplomatic negotiation are much more successful than rhetoric—and EEC realities almost always rule in the end. Thus it is very unlikely that the farm ministers will take any dramatic decisions on CAP reform this year, or that the Western European elections looming just round the corner in January, and Chancellor Kohl anxious about his farmers' vote.

Through dramatic progress cannot be expected, the British will nevertheless be passing on to their Belgian successors in January some solid groundwork on agricultural reform and the completion of the internal market. These major issues must continue to dominate the Community's agenda until substantial results have been achieved.

Undoing the greenmailers

NOBODY much has a good word for greenmail, the American practice whereby a corporate raider who has over bid in exchange for selling a strategic shareholding back to the potential victim company. Even the greenmailers do not care to admit to an activity that remains legal, and those who threaten a company usually support the greenmailers' disavowals because they dare not admit that they are paying protection money to save their jobs.

Yet the greenmailers are reckoned to have extracted several billions from American industry since the habit took root earlier this decade. They are also raising the odds in the poker game by taking the fight closer to the corporate establishment. Sales of shares in the past fortnight by Sir James Goldsmith back to Godfrey's Tire and Rubber, and by Mr Ronald Perelman to the razor and consumer products group Gillette are estimated to have made profits for their respective consortia of \$90m and \$34m. The profits were, however, made at the cost of raising eyebrows in the US Congress. With Democrats now in charge of both houses, greenmail looks as likely a target for a draconian legislative onslaught as insider trading after the Levine and Besky scandals.

Increased debt

This concern is understandable, for one of the chief consequences of the practice is to saddle large areas of American industry with more debt, while simultaneously reducing the amount of equity in issue. As Senator William Proxmire, the new chairman of the Senate Banking Committee, has pointed out, this is bound to inhibit investment in capital equipment, research and training.

Whether that means that takeovers in general should be made more difficult to carry out, as some proposals now under consideration on Capitol Hill demand, is another matter. For if corporate raiders and greenmailers have flourished of late, it reflects a failure of ownership quite as much as any flaw in the legal structure. To so far as the corporate raiders have a defence, it lies in the assertion that shareholders, the real owners of the

THE OFFICIALS of the Department of Trade and Industry, regarded for six years as the insider trading police, are suddenly causing anxiety in the City.

Armed with new, tough investigation powers, the DTI has extended its inquiry beyond the illicit dealings of Mr Geoffrey Collier, Morgan Grenfell's ex-securities chief, to other suspects. From the corporate financiers in the City's panelled lunch rooms to the market-makers on the dealing floors below, the rumours ebb and flow about those implicated by Mr Collier or by Mr Ivan Besky, the disgraced US arbitrageur who carried out many of his deals through the UK.

On Wall Street, the atmosphere has been transformed by the downfall of Besky and the widening investigations of the Securities and Exchange Commission (SEC) into the relationships between the takeover arbitrageurs, investment banks and corporate raiders. Normally brilliant dealmakers have withdrawn into silence and the effect of a Congressional backlash against takeovers is expected to bite in the new year.

On both sides of the Atlantic, the crackdown is forcing the compliance officers of the securities houses to review their rule-books. Should corporate financiers consult their securities arms about an impending takeover bid, they have no options involved in an impending bid to put on a "restricted" list to stop the market-makers and fund managers dealing in their shares—or would the list merely alert miscreants to legitimate trade on rumour or partial inside information, like seeing a company's finance director in a conference room with a mergers and acquisitions team?

As public concern at insider trading and other forms of City fraud has increased over the past year, attention has focused on the role of the DTI: is it capable of the vigorous success of the SEC? Its past record must leave this in doubt.

UK insider dealers have so far had much less to fear from the regulators than their US counterparts. In the six years since insider trading was made a criminal offence, 110 cases have been referred to the DTI by the Stock Exchange—but only six have led to prosecution against nine individuals of whom three were fined by the Exchange as "small fish."

The DTI's problem is not a lack of ability to investigate; even Besky considered London to be lazier than New York. In the first six months of 1985, according to the Journal Acquisitions Monthly, the share prices of 19 UK companies showed a 20 per cent increase in the four weeks before the first announcements when they were the targets of takeover bids.

By any other name

Laurie Milbank, the City stockbroker, has run into a spot of linguistic bother with the Japanese over his application for a securities dealing licence in Tokyo.

Japanese banking law says that banks may not deal in securities. Unfortunately, Laurie Milbank's application for a securities licence in Tokyo was given an unusual twist. The Japanese said it might be better if the firm could find another name to avoid confusion. Chase Manhattan Bank, which owns Laurie Milbank, says it quite understands the Japanese problem and will be happy to think up a new name.

Restoring Rome

Yet another of the sights of Rome goes under cover next spring when restoration work is due to start on the 10 ha large area which decorates the Fonte Sant'Angelo.

Designed by Bernini, but sculpted by his pupils, the statue stand on one of the oldest bridges over the Tiber which leads to one of the most popular sights of the city, the Castel Sant'Angelo.

The statues, like the Romans themselves, are suffering acutely from the effects of increasing pollution of the city (which led to some areas being sealed off from private traffic for one day last week).

The comparative rapid rescue operation set up to save the statues has been organised by two young Roman women whose company, Fanglos, specialises in finding private sponsors for public works.

They have one restoration job already to their credit—that of the Barocaccia, Bernini's trend whereby institutional investors demand changes in company by-laws to prevent greenmail payments. Unlike most victims of protection shareholders do not stand to suffer if the money is not paid over.

How the insider dealer does it

THE world-wide insider trader gets a job with the corporate finance department of a merchant bank active in mergers and acquisitions.

Always travelling via a third country, he visits two tax havens, Panama and Liechtenstein, which have resisted foreign pressure on their secrecy laws. In each country, he sets up a trading company and opens accounts in two or three banks in their names. He only uses banks with no operations or assets in the UK and US.

He never tells the banks his

real name but arranges for them to deal through a large London broker firm whenever they receive coded instructions over the telephone.

When he picks up inside information, he always trades alone using a call-box. Information-swapping rings have been out, ever since Levine and Besky betrayed their secrets. He never trades in large amounts but may break up a transaction into a series of deals from different accounts. He avoids the mistake of trading just before a bid announcement—it makes the market-makers wince.

The SEC's energies are focused on civil actions which require a lower level of proof. Since 1984 it has been able to compel offenders to pay a penalty of three times their illicit profits, even in a civil action.

The most serious obstacles confronting the UK's investigators are the offshore trading accounts and companies used by the larger dealers. Since 1980, about 50 investigations by the DTI have revealed the real ground to a halt when they turned up nominee accounts where the account holder is not named in foreign banks or companies whose ownership is never disclosed.

The SEC has encountered fewer obstacles. Its greatest success in the 1980s has been in undermining the reputation of the Swiss bank account as the most confidential medium for illicit transactions.

Men and Matters

Lord Drogheda, has been dealing in rare books and autographs since it was founded in York in 1761 (moving to London in 1815) and for some time has been keen to expand the print side of its business.

The opportunity to link with the flourishing print-selling business which Ben Weinreb—who knows more than most about prints and old maps—has been operating near the British Museum in Store Street was too good to be missed.

What has taken place, said a spokesman for both companies, is a marriage rather than a merger.

Lazy sailing

Ex-SEC executive Martin Jay, who took the helm at Lewmar, the British yacht equipment maker, when it was floated on the British stock market last year, has a strategy to make his firm the leader of what he calls the "push button sailing era."

He has just spent \$4.6m to buy Brookes and Gatehouse, another company with a world reputation in boating circles.

B and G of Lymington, Hampshire, specialises in marine electronics. Indeed pioneered much of the gear, and was highly competitive in a market which is the world's leading supplier of yacht winches.

Book deal

Merchant banker, Evelyn de Rothschild, who owns the oldest established book-sellers in Britain, Henry Sotheran of Sackville Street, London, has been extending his literary interests.

He has bought Weinreb Architectural Books—the biggest dealer in such books in the world.

Sotheran, whose chairman is

keeps a close watch on unusual movements in price and volume, particularly in the period before a company announcement.

The most common problem has been proving that the individuals who carried out the trades were acting on inside information. Because the UK's Insider Dealing Act is so ambiguous that US legislation, there is less scope for finding creative interpretations of the law to catch miscreants. Also the burden of proof in a criminal action is high and the rules of evidence and procedure constricting. A provision to allow civil actions to be brought against any SEC application to its courts, because it said, of the "peculiar and unprecedented circumstances of the case."

The government of the Cayman Islands, the other Caribbean jurisdiction which has agreed with the US authorities, has taken similar action, waiving its bank secrecy rules in a 1983 tax case involving a Canadian bank. The Cayman Islands government has agreed with the US allowing for a limited exchange of information.

The SEC's campaign has not proceeded totally without achievement, however. Despite the new more open attitude of the Swiss in some cases, Swiss bank secrecy has impeded two large investigations since 1984. Panama has resisted all attempts to break its bank secrecy and many Caribbean money-launderers have set up in the South Pacific islands of Nauru and Vanuatu.

the SEC's energies are focused on civil actions which require a lower level of proof. Since 1984 it has been able to compel offenders to pay a penalty of three times their illicit profits, even in a civil action.

The most serious obstacles confronting the UK's investigators are the offshore trading accounts and companies used by the larger dealers. Since 1980, about 50 investigations by the DTI have revealed the real ground to a halt when they turned up nominee accounts where the account holder is not named in foreign banks or companies whose ownership is never disclosed.

At law

Ken Graham, the TUC's deputy general secretary, and its principal legal and industrial relations expert, is to be awarded an honorary doctorate next month, along with Sir Denis Roebuck, British Gas chairman, and Geoffrey Chandler, former director general of the National Economic Development Office.

The awards—among only eight doctorates given annually by the Council for National Academic Awards—will be presented at the Wedgwood factory near Stoke-on-Trent.

Graham's doctorate of law was a mark of comfort to him, he spent two days last week in the High Court, listening to a TUC-affiliated union, the white-collar ASTMS, attempt to overturn a TUC decision to withdraw its support from union representation in the Sun Alliance insurance group.

Strong support

From the house magazine of a New York company: "When Miss Allcock joined us, she knew nothing about the corset and girdle trade but she lost no time in learning the market by side of the business, and in less than four years she had become a mainstay of the organization."



Checks on insider dealing

SECURITIES FIRMS: ● Monitor compliance by employees ● Notice suspicious dealings with customers

Sanctions: (1) Dismiss an employee and file report with regulators (2) Stop dealing with an outside customer (3) Report to stock exchanges

STOCK EXCHANGES: ● Monitor unusual patterns of trading and price movements before inside information is made public ● Investigate member firms/employees

Sanctions: (1) Bar an offender from trading on exchange (2) Expel or suspend a member firm or individual (3) Report to statutory regulator

UK **US**

DEPARTMENT OF TRADE AND INDUSTRY
Investigation powers:
Onshore: To force open bank accounts, compel witnesses to answer questions and produce documents (unused to date)
Offshore: (1) To take sanctions against the UK branches of non-cooperative foreign banks, investment houses (unused to date) (2) To gather information through agreement with SEC

SECURITIES AND EXCHANGE COMMISSION
Investigation powers:
Onshore: To subpoena individuals, firms, bank accounts and other documents (subject to challenge)
Offshore: (1) To gather information through agreements with UK, Japan, Switzerland, Cayman Islands and others (2) To apply diplomatic pressure (3) To take sanctions against US branches of non-cooperative foreign banks etc

Sanctions: To prosecute an offender

Sanctions: (1) To refer offenders for prosecution (2) To fine an offender three times his illicit profits in a civil action (3) To impose other administrative sanctions (4) To provide all available evidence to civil litigants suing the offender

offence itself has assumed a higher profile.

While in the US, insider dealing is seen as undermining the integrity of capital markets and the benefit of small investors that they are on a level playing field with the Wall Street institutions, many European countries (with no history of wide share ownership) have not made insider dealing a criminal offence.

In the UK, the offence has, up until now, not been considered a serious one. As Sir Martin Jacob, deputy chairman of the Securities and Investment Board, the new City regulatory authority, argued last week, insider dealing is widely viewed as a victimless crime. Normally, the only losers are those market-makers who have failed to keep a tight control of their books. Investors who sell their shares when an insider is buying—would normally have sold even without him.

One of the leading US analysts of insider dealing, Henry Manne, director of the law and economic centre at George Mason University, near Washington, last week spoke out against the SEC's "maniacal crusade." The real problem, he said, lies in the framework for conducting takeover bids, the source of most inside information.

David Myddleton, professor of finance and accounting at the UK's Cranfield School of Management in Bedford, accepts Manne's economic arguments. "But when you see all the greed and the cheating that has come out over the last few weeks, it is difficult to take an ethical stand in favour," he says. "The best solution would be to make more commercial secrets come out into the open."

Nonetheless, even some of the sterner critics of insider dealing in the UK believe that the sanctions against them should have been left to private sector bodies such as their employers and the Stock Exchange rather than using the clumsy apparatus of the criminal law.

According to Bob Wilkinson, head of the Stock Exchange's surveillance department, "The most important thing would have been to make it a civil and not a criminal offence. But as it is too late now, we have to stop being so prissy about our investigations."

Stainless prices

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Training performance

European chemical companies

An inescapable quest for critical mass

By Tony Jackson, Chemicals Correspondent

EUROPE'S chemical companies seem in a sudden hurry to buy into America...

The latest flurry is part of a process which has been going on for a couple of years...

All this has not been mere fashion, though there may be a touch of that...

And now, with the Europeans clutching and the Americans drained by rationalisation...

But it is not just a matter of currency opportunism; after all, ICI bought Beatrice when the dollar was at its peak...

don't want access to the US market, some products are dollar-denominated...

The point is appreciated in the US. Donald Sutherland, managing director of investor...

Protectionism and competition policy is another explicit - if muted - reason given by the Europeans for looking at the US just now...

And while anti-trust legislation is less strict than it was and perhaps will be...

Union Carbide's sale of its agro-chemical interests is at least partly prompted by the need to recoup the costs of fighting off a hostile bid from GAF...

Behind all the short-term factors, though, lies a relentless trend towards internationalism in the chemical markets of the world...

As markets get more and more world-wide, Mr Throustet says, "it's very important to control that whole market..."

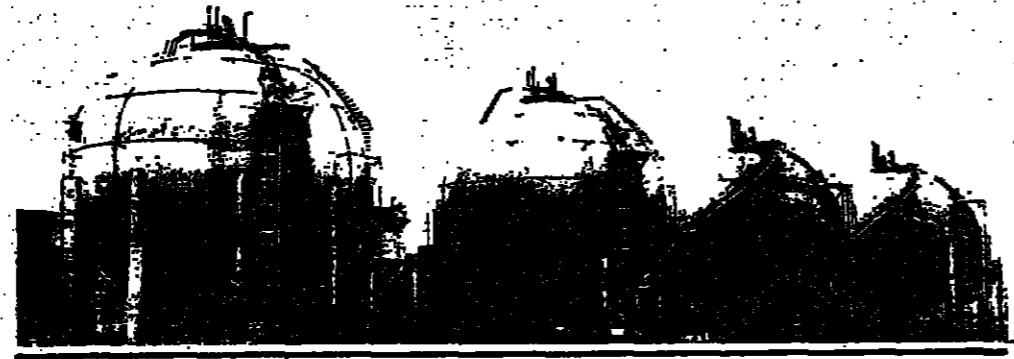
A German executive says: "We are not eager to build up US turnover for its own sake..."

the commodity business of artificial fibres, and ICI's purchase of Glidden makes it the world's largest maker of paint...

And, adds Ronnie Hampel, ICI board director in charge of the Americas, "the technology of the industry is becoming worldwide, and you have to follow it..."

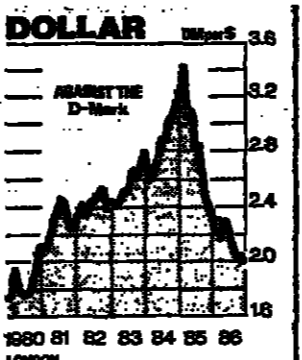
Technology involves another aspect, known in the jargon as "critical mass..."

Still, however, the initial question returns. These arguments have held good for a long time...



EUROPEAN ACQUISITIONS IN US

Table with columns: Buyer, Company, Date, Price. Lists acquisitions by Bayer, ICI, BASF, etc.



* Bid still in progress

Stainless steel prices

From the Director, Catering Equipment Manufacturers Association of Great Britain...

Sir - The members of this association, with a combined turnover of some £200m annually, are major consumers of stainless steel sheet...

The association is very deeply concerned by the present practices and intentions of the European steel cartel - Eurofer...

The ample supplies of stainless steel sheet from overseas sources are forbidden entry to the European market...

Members hope to see early action both by the European Commission and the British Government...

(Dr) E. Munden, 14, Pall Mall, SW1.

Training and performance

From Mr E. Wood

Sir - It simply is not true, as Professor Mangham claims (November 24), that the link between performance and management training has never been tested...

Careful analysis showed that there was a correlation between performance (in terms of profitability) and the amount of training...

Letters to the Editor

capital than those doing more for the credit controller has to be reversed...

The only face-saving conclusion we could reach was that those who were satisfied with their performance felt that it was unnecessary to train while those who saw the need for improvement felt that training might help...

Penalising the innocent

From Mr D Evers

Sir - H. Hermann's article "Punishing the innocent" (November 20) will be read with interest in the London insurance market...

Poor cash flow

From the Marketing Director, Fert Internationals

For instance, situations exist where up to 40 per cent of sales invoices contained mistakes...

The traditional and narrow view customarily found in British industry that credit management is only a problem

Investment trusts

From Mr E. Chappell

Sir - Lex (November 27) is unduly harsh in suggesting that it is only the prospect of corporate activity which has brought market strength to the investment trust sector...

There is increasing realisation that the market is more fully appreciative of what the sector is designed to achieve...

There are at least two other factors in the sector's favour. Under new financial services legislation, there will be increasing pressure on intermediaries to recommend the investment which is best for the investor...

Does it allow you to tell your complete sales story with maximum creativity?

Does it reach your target at a receptive moment, with no other advertising alongside?

Can it be targeted to any size of business market - from nationwide down to one trading estate?

Does it avoid the wastage of other media because it's seen only by businessmen who are likely to be interested in your product or service?

Does it allow you to contact potential customers just as and when you choose?

Does it let you test it economically and get the results quickly?

Can you easily use it to compare the effectiveness of alternative messages?

Is it unrestrained by the dictates of size-of-space, length-of-time or copy dates?

Can you save money the first time you use it, by means of a special offer?

Can you get even greater response from it by using FREEPOST or BUSINESS REPLY - services which themselves offer big discounts the first time you use them?

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NAME & POSTION: COMPANY: ADDRESS: POSTCODE: TELEPHONE:

«DIRECT MAIL»

Lombard Independence for Channel Four

By Samuel Brittan

THE TELEVISION channel I most prefer is BBC 2, the Corporation's supposedly cultural channel...

But it is clear from several press leaks that Budd reported that the bounty of advertising revenue was quite sufficient for Channel Four to be self-supporting...

On the other hand, any loss to ITV companies would be far too small for it to be worth their while to retaliate.

The chairman and influential executives of Channel Four are in favour of varying degrees, as are one or two of the independent members...

The ownership and financing arrangements, however, are something that only the British (or the Byzantines) could have invented.

Channel Four is financed by a levy on Independent Television companies, which amounts in effect to 13.6 per cent of their net advertising revenue...

The share of advertising revenue attributable to Channel Four has been creeping up and amounted in 1985 to 10.9 per cent.

The Peacock Committee on broadcasting finance recommended that Channel Four should be "given the option" of ceasing to be a subsidiary of the IBA and of selling its own advertising.

until December 3 by rearguard action from opponents of independence.

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CAR CONTRACT HIRE FOR COMPANIES WHO KNOW WHERE THEY'RE GOING TELEPHONE 01-993 7611 Wincanton Contracts

FINANCIAL TIMES

Monday December 1 1986

GROWTH That's BTR

William Hall on Wall Street

Boom or bust for prices

WITH the Dow Jones industrial average ending last week less than six points short of a record high...

The latest economic news out of Washington - particularly the sharp drop in orders for October durable goods - is far from encouraging...

However, if Wall Street's bulls are beginning to lose their nerve about the long-term direction of US share prices, they could do a lot worse than spend a few minutes listening to Mr John Templeton...

He stresses that US share prices have risen only 32 per cent over the past 50 years, stated in dollars of constant purchasing power...

The current ratio of US share prices to next year's estimated earnings of around 14 times is 'about average for the past 80 years'...

In common with many investors, Mr Templeton is amazed by the valuation of the Japanese stock market and notes that during the great American bull market which ended in 1929...

Mr Templeton doubts whether such a divergence in stock market valuations can be justified over the long term. He is apprehensive about the impact on the rest of the world's stock markets if Tokyo prices were to collapse.

On the other hand, he is clearly intrigued by the possibility that US share valuations might rise sharply at some future date for some of the same reasons that have sent Japanese share prices into the stratosphere.

It is possible that in the next bull market US share prices might rise far above what has been considered normal in the past in relation to earnings, says Mr Templeton who argues that the Japanese stock market is being fuelled by a 'shortage of shares and a surplus of cash'.

Over the last three years he estimates that 10 per cent of US shares disappeared because of takeovers, leveraged buy-outs and share buybacks.

A shrinkage of this magnitude has never before occurred in any nation. He is also impressed by the sheer weight of cash available - everything maturing within 18 months - which exceeds the total market value of all US shares...

Mr Templeton says that there are some similarities between now and then, but the differences are much greater. It is possible that the Dow Jones industrial average could fall from its current level of near 2,000 to below 1,000, but this should not be mistaken for another great crash, just the inevitable bear market which will hit Wall Street sooner or later.

Peter Riddell reports on the Australian court case

Spy trial obsession rules London

IT IS all very exotic - rather a metropolitan issue - a British Cabinet minister said after last week's further instalment of the secrets case with its naming of famous names...

The British Government is battling to prevent publication in Australia of a book by a retired officer of M15, Britain's spy-catching service, in which he claims that a former director was a Russian agent.

The case resumes today when the British Government faces a further week of pressure and political embarrassment, both in the Australian courts and in the House of Commons.

Conservative Party leaders are mounting a concerted attempt to shift attention and criticism on to the role of Mr Neil Kinnock, the Labour leader who telephoned the defence lawyer last week in a widely condemned move.

Immediate attention will focus on a ruling by Mr Justice Philip Powell of the New South Wales Supreme Court on whether highly secret and sensitive British Government documents, which he has been reading during the weekend, should be made available to the defence.

The British Government has strongly resisted production of the documents and will, if necessary, appeal against the judge's decision. For all its haziness the affair has become, however briefly, the dominant topic of discussion among UK politicians and commentators...

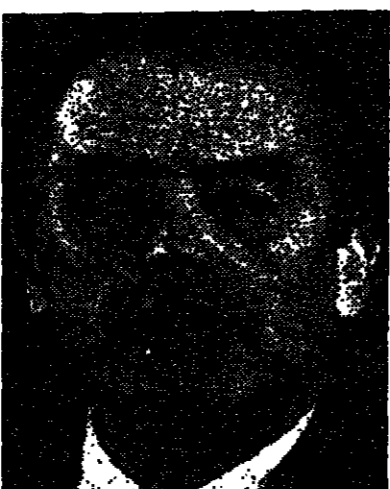
This is a familiar pattern. For the time - sometimes weeks, occasionally a month or two - the British Parliament and those who report it become preoccupied, even obsessed, with an issue which appears peripheral to the main concerns of Britain - Mr Mark Thatcher's involvement in an Oman building contract, opposition to the sinking of the Argentine cruiser Belgrano during the Falklands and also, even to some extent, the Westland helicopter affair.

Continued from Page 1 ders, Mr Brent Scowcroft, a former National Security Adviser in the Ford Administration, and Sen John Tower have been appointed to a three-strong 'blue ribbon' panel to investigate the role of the National Security Council in the wake of last week's disclosures. Mr Reagan is to meet the panel today.

Expatriates spurn UK voting role Continued from Page 1 more people registered but points out that, for the first time, those who wish to vote can now do so.

The outcome is a particular disappointment to the ruling Conservative Party which had been hoping for additional support from overseas voters. A direct mail shot was sent to more than 100,000 expatriates and a new body, Conservatives Abroad, was set-up specifically to cater for their needs.

A variety of reasons have been put forward, with hindsight, by the parties for the low level of response compared for example with the 20 per cent voter registration by US citizens living in the UK. First,



Sir Robert, the epitome of the English establishment, has appeared to Westminster politicians like a hapless cricket captain of old.

and are replaced by more durable domestic issues.

While they last, however, Westminster talks of little else. And of course, the British middle and upper classes - and hence the press - can satisfy their fascination with spies.

But do most voters care? MPs report puzzlement, not anger, from their constituents - and hardly any letters on the topic.

Yet the M15 affair does raise serious issues. The point of the UK Government's case in the Australian courts is that former M15 officers, like Mr Peter Wright, should not be allowed to disclose information without authorisation.

These are the same issues which are being raised by the M15 officers' book and Mr Wright's case involvement well before publication. On this view, the authorities, at the very least, made a deliberate decision to allow the book to go ahead, and may have played a more positive role.

The case has also thrown up apparent inconsistencies in the Government's method of taking decisions. Sir Robert Armstrong has been forced to change submissions, notably over whether Sir Michael Havers, the Attorney-General and senior law officer was involved.

Much of the Australian case has turned on whether or not there was British Government acquiescence

in the publication of Mr Pincher's book and therefore on whether it has taken an inconsistent attitude.

The UK Government's case is that there is a distinction between books written by former M15 officers and those by journalists, even with the help of the former; and that when the Prime Minister was faced with a decision shortly before publication she was told it was too late to stop the disclosures.

The critics of the Government's case assert that the intelligence authorities knew about Mr Pincher's book and Mr Wright's case involvement well before publication. On this view, the authorities, at the very least, made a deliberate decision to allow the book to go ahead, and may have played a more positive role.

That retraction only followed week-long angry ruminations by Sir Michael leading up to a meeting with Mrs Thatcher.

Indeed, Sir Robert, the epitome of the English establishment, has appeared to Westminster politicians like a hapless cricket captain of old, probably wearing a Harlequin's cap and being harrowed by Australian rowdies from the Hill at Sydney.

More substantially, a number of senior civil servants, as well as politicians, are worried about whether Sir Robert should be put in the position of being the public spokesman for Mrs Thatcher, as he also was in the Westland affair. They fear that, like Lord Armstrong (now deceased) under Mr Edward Heath, Sir Robert has become de facto head of a Prime Minister's department rather than Cabinet co-ordinator and impartial head of the civil service.

The other constitutional question is over the control of the intelligence services. The SDP-Liberal Alliance will use a Commons debate on Wednesday to press the case for oversight by a Commons committee of privy councillors.

Labour will support this call and a few Tory MPs are sympathetic but it will be resisted by the Government. In theory, although not in practice, the current departmental-related select committees could look at the two intelligence services and one committee did hold an inquiry into the special branch.

Finally, a loud, but not very substantial sub-plot has developed over the contacts between the office of Mr Neil Kinnock, the Labour leader, and Mr Malcolm Turnbull, the lawyer for Mr Wright.

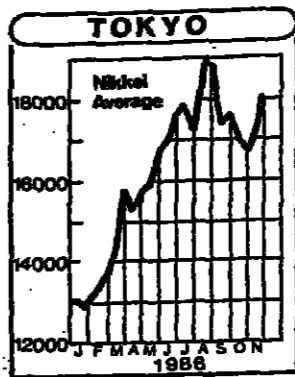
Labour MPs have furiously attacked Mr Kinnock for collusion and for undermining Britain's intelligence services. But, on present evidence, Mr Kinnock has been, at the most, unwise, or naive, in personally talking to a lawyer acting against the British Government in a foreign court.

Labour MPs suspect that the Conservative outrage is a device to shift attention away from the substance of the Australian case.

In any event, for all these sideshows, the Government faces the problem that unless it drops the case - and thereby compromises the principle of confidentiality - it faces further embarrassment in Australia and rows at Westminster. The show is not over yet.

THE LEX COLUMN

Never the twain shall meet



ily solved by the creation of such Japanese walls.

Many of the Tokkin are acting solely for a single company, not to secure the pensions of the employees, but to generate profits for the company itself.

Realised capital gains can be treated as trading profits, which is a great incentive for the manufacturing companies whose earnings from normal trading are expected to fall this year by almost 50 per cent.

Cynical

Yet if cynicism about earnings were to crater Tokyo, it would have done so long ago. Most of the market heat is generated by asset - not earnings - plays. It is probable that the entire market is at a substantial discount to asset value, with companies valuing property and other assets in the book at pre-war prices.

Such arguments might sway the western investor if the Japanese stock market had the ability to buy and sell whole companies in the style of London and New York. Unfortunately, the cultural impossibility of hostile bids in the Japanese business community suggests that a substantial discount to assets is appropriate.

Yet the deregulation of the savings industry in a country in which only 1.4 per cent of personal savings are in equities is a wonderful prospect for the equity salesman. If the Japanese Government does remove the tax-free status of time deposit savings, then the weight of money in the stock market could be dramatically increased.

World trade forecast to grow faster

By William Duffice in Geneva

WORLD TRADE will grow slightly faster in volume this year than previously forecast owing to a sharp recovery in fuel exports. West Germany is set to replace the US as the world's biggest exporter in dollar terms, and for the first time developing countries will earn more from manufactured exports than from fuels.

These 1986 predictions, based by the secretariat of the General Agreement on Tariffs and Trade (GATT) on figures for the first 10 months, are announced simultaneously with the publication today of Gatt's report on International Trade.

A disturbing note in the report is the stagnation of world merchandise trade to near 4 per cent in the first 10 months of 1986, and the importance of the North American market in the car industry's three-year recovery cycle.

Heavier buying of fuels by importers this year in response to the fall in oil prices leads Gatt to revise its forecast for the growth in the volume of world merchandise trade to nearer 4 per cent than the 3.5 per cent predicted in its report.

Although larger than the 3 per cent recorded in 1985, this increase contrasts with average annual growth rates of 5.5 per cent during the 1970s and 8.5 per cent in the 1980s. The slowdown in trade is one of the principal motives for the new Uruguay round of multinational trade talks.

The US will lose its primacy as an exporter of goods for the first time since 1921 when it took over from Britain. But West Germany's surge to the top of Gatt's exports table is a statistical oddity generated by the collapse in the dollar exchange rate, against the D-Mark.

Measured in dollars, US exports have risen in value by just over 10 months to \$180bn in the first 10 months while West German sales soared by 94.5 per cent to \$20bn.

In D-Mark terms, West German export earnings fell by 1.9 per cent in value to DM 440bn (\$220bn). A more relevant conclusion from the latest figures is that US export growth remains sluggish and has only partially recouped during the past two years from the temporary decline experienced in the early 1980s.

Gatt International Trade 1985-86, available from Gatt Secretariat, 154 rue de Louvain, 1211 Geneva 21, price SFr 30.

World Weather

Table with columns for location, temperature, and weather conditions across various global regions.

Turkey seeks migration deal

Continued from Page 1 of the Council of Ministers will be needed to prepare the ground for an Association Council meeting. Prof Bozer is due to meet Sir Geoffrey on December 18 in what is regarded as a crucial encounter.

Prof Bozer said he thought individual Turkish workers would have the right to sue in EC courts if they were denied jobs in the Community but said he knew nothing about any plans to do so.

Although Community lawyers are now trying to play down the seriousness of Turkey's legal case, until a year ago they were privately offering the opinion that it was watertight.

Siebe plc has acquired

Robertshaw Controls Company

Lazard Freres & Co. acted as financial advisers to Siebe and dealer manager for the tender offer in the United States. Kleinwort Benson and Lazard Brothers jointly underwrote the issue of 31,220,913 new Siebe shares in London to finance the acquisition. Kleinwort Grieveson were brokers to the issue.

Lazard Freres & Co. Kleinwort Benson Limited Lazard Brothers & Co., Limited Kleinwort Grieveson Securities Limited November 1986

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday December 1 1986

No.1 IN DUMPERS

Thwaites

Thwaites Ltd, Leamington Spa, Warwickshire CV32 7NG, England.
Telephone: Leamington Spa (0522) 22471. Telex: 31667 Thwait G.

St Gobain issue 'oversubscribed'

BY DAVID HOUSEGO IN PARIS

THE SUCCESS of France's first major privatisation seemed assured at the weekend with every sign that the flotation of Saint Gobain, the glass and engineering group, had already been heavily oversubscribed. The issue closes on December 5.

In both Paris and London, "shares" were traded on Friday in unofficial dealings at between FFf 345-FFf 355 representing a premium of 11 per cent to 13 per cent on the issue price of FFf 310 (\$48). Some French banks were reported to have been faced with share demands 10 times higher than they could accommodate. Apart from institutional buyers, more than 1m individual investors, each entitled to at least 10 shares, are believed to have made offers, thus boosting the Government's hopes of generating a popular ownership for denationalised companies.

The 20 per cent of shares allowed to foreigners have already been placed by banks managing the issue including Kleinwort Benson in Britain. On offer are 26m shares, representing 94 per cent of the group's capital.

The Government has done its best to assure the success of the issue by fixing an offer price of FFf 310 - or only FFf 3 above the last quoted price of its *certificats d'investissement* (non-voting stock). Other factors that have contributed to the success of the issue, are the encouraging profit forecasts made by the company and the growing belief in an upturn in the international glass industry.

French officials fear, however, that the privatisation of Paribas, the state-owned investment bank and the next institution on the Government's list, could be more difficult. This is because Paribas's complex banking and industrial interests make it more difficult to fix an offer price that is both tempting to shareholders and fair to the state.

At the same time, the privatisation programme is beginning to have a crowding out effect on the French capital markets.

In the first nine months of this year, new bond and share issues by French institutions on the Paris bourse have raised FFf 391bn - an increase of 37 per cent on the same period last year.

Eurobond market sees the knives out for FRNs

LAST WEEK'S tiff in the Eurobond market about Standard Chartered's \$200m perpetual floating rate note (FRN) gave primary dealers plenty of food for thought, writes Haig Simonian in London.

Yet the debate over the success of the deal and whether the lead manager, Credit Suisse First Boston, had cut itself too succulent a helping, seemed something of a digression in a week when the knives were out for FRNs across the board.

Prices for floaters had almost recovered from the heavy falls of early last month, when the run on paper priced at London interbank bid rate (Libid) triggered a wider decline.

Since then, there had been something of a rally in FRNs thanks to fewer new issues and more generous pricing over London interbank offered rate (Libor). Wednesday's perpetual issue for Rhone-Poulenc, the French state-owned chemicals group, offered investors a coupon of 7/8 per cent over six-month Libor for the first three years, rising by 1/4 point a year thereafter to a ceiling of Libor plus one percentage point.

Admittedly, few dealers expected

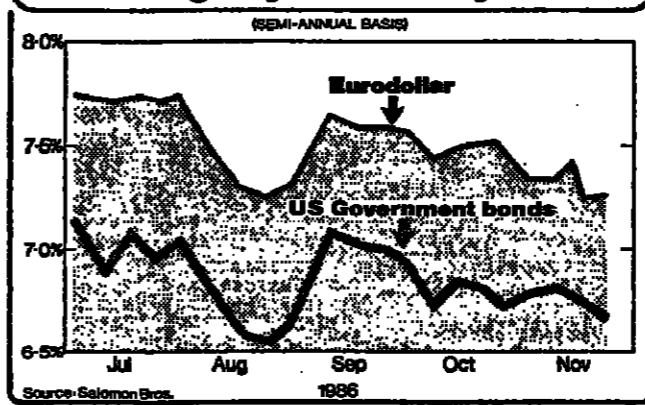
the paper ever to hit that maximum; the issue will most probably be called when the company's privatisation plans are clarified, letting it transform the FRN into some form of equity capital.

Yet the paper is cast in an even better light when viewed in terms of its likely six-year call: 1/4 point over Libor for the first three years and Libor plus 7/8 for the second three-year span is a juicy spread indeed. Its very different structure means it is not directly comparable, but many dealers reckoned the terms were much more generous than those for Rhone-Poulenc's recent \$275m seven-year credit, which was heavily oversubscribed.

Various reasons lay behind last week's tumble in FRN prices. Rumours about an imminent clampdown on Japanese purchases of subordinated debt got the week off to a bad start. Then there was the continuing overhang of sub-Libor priced paper. However strong the earlier recovery, dealers had only begun to clear the backlog.

In the circumstances, the Standard Chartered issue was probably more the scapegoat than the cause of the ensuing price falls. While

Average 5 year market yields



Source: Salomon Bros.

some syndicate managers are still squabbling about that deal, opinion differs widely about where the FRN market is heading at present.

The optimists think floaters will stabilise again shortly, just as they did after early November's sharp falls. Generously priced FRNs for high quality names remain in demand. At a spread of 45 basis points over one-month Libor for a likely triple A investment, the \$500m issue for Prudential Insurance Com-

pany of America has gone down a treat.

The doomsayers think otherwise, however. They argue the market is going through more than just some seasonal pre-Christmas lull. It is certainly hard for the marketers to persuade a prospective borrower - say a commercial bank - which could have issued floating rate paper at 5 basis points over Libor a few weeks ago to take the plunge at Libor plus 7/8 or plus 7/8 now.

Many borrowers will respond by continuing with short-term funding, or by turning to the fixed rate market instead. The word in dollar straight is been a lot better.

Signs of renewed Japanese retail interest in the US Treasury Bond market gave the benchmark 30-year long bond a healthy fillip. Yields on the long bond were down to 7.40 per cent on Friday against the previous week's close of 7.44 per cent. Earlier last week yields had dropped further, scraping 7.35 per cent on Tuesday.

That was all good news for the straight Eurodollar market, even if taken more selectively, with five to seven-year maturities benefiting most strongly. The market was thrown out of kilter by the Thanksgiving holiday and the decision of many New York dealers to make it a long weekend. But last week's modest new issue volume in straight Eurodollars helped to bolster prices.

A torrent of pre-Christmas new issues, or *hara-kiri* pricing by a lead manager anxious to climb the league tables before the year is out, could yet upset the balance. Other-

wise, however, the outlook for straight Eurodollar bonds seems most promising.

Last week's rise in the Nikkei stock index of Japanese shares spurred a number of equity warrant and convertible deals for Japanese companies, many of which met with keen investor demand. There has been something of a lull in such deals since the market reached saturation point in September. Is there something to be said for the benefits of restraint?

Primary Market	Secondary Market	Total
US\$ 2,232.5	US\$ 1,447.7	US\$ 3,680.2
FFf 779.1	FFf 382.5	FFf 1,161.6
DM 442.8	DM 280.7	DM 723.5
Other	Other	Other
US\$ 24,877.2	US\$ 12,679.2	US\$ 37,556.4
FFf 21,177.8	FFf 22,361.5	FFf 43,539.3
Other 12,025.5	Other 2,225.5	Other 14,251.0
Pre 12,478.9	Pre 2,637.9	Pre 15,116.8
US\$ 13,762.9	US\$ 36,830.8	US\$ 50,593.7
FFf 16,448.7	FFf 41,447.7	FFf 57,896.4
Other 10,395.0	Other 11,434.7	Other 21,829.7
Pre 10,796.5	Pre 11,948.5	Pre 22,745.0

Week to Nov. 27, 1986 Source: AIBD

Petro-Lewis considers filing for bankruptcy

BY WILLIAM HALL IN NEW YORK

PETRO-LEWIS, the struggling Denver-based oil and gas group which was one of the most aggressive marketers of oil and gas partnerships during the boom in oil prices, has defaulted on some of its debt payments and is considering filing for protection under Chapter 11 of the US bankruptcy code.

The group, which is in the process of being taken over by Freeport-McMoran, a New Orleans-based energy group, has been hard hit by the slump in world oil and gas prices and has frequently

threatened to file for Chapter 11 bankruptcy in the past. In the year to end-June, the group lost \$415.6m after taking a \$338m write-down of its oil and gas properties.

Petro-Lewis has warned that unless Freeport-McMoran's \$750m acquisition is allowed to go through, it will have no alternative but to file for bankruptcy. Petro-Lewis has been losing money for three years and a Chapter 11 filing could wipe out stockholders equity and would hurt many of the "secured" bond holders.

Stunning terms for Renfe in six-year Euronote loan facility

RENFE, Spain's state railway, has ridden like an express train on to new ground in the Euronote market with the terms of its latest \$315m, six year loan facility mandated to Manufacturers Hanover, last week, writes Peter Montague in London.

The deal bears a facility fee of just 2 1/2 basis points for the first three years rising to 3 points thereafter. This is way below terms achieved by other European sovereign borrowers which have been pressing for some time against a 4 point barrier.

Terms on the Renfe deal were expected to be very fine, both because of the intense competition among leading banks to win the mandate and because of the recent successful syndication of a \$50m credit for ICO, the state credit agency, which carries a margin of 15 basis points over the London interbank bid rate

for Eurodollar deposits (Libid). Yet the pricing of the deal still stunned the market when it was unveiled on Friday. Besides the low facility fee, the terms include a margin on drawings on Libid flat plus a utilisation fee of 12 1/2 points on any amounts drawn. Taken together with the facility fee, this will mean that the return to participating banks on a fully drawn basis will be equivalent to that on the ICO credit.

But it is by no means a foregone conclusion that Renfe will be so lucky. In the first place ICO's deal proved to be quite hard to syndicate despite its oversubscription. In the end it was helped by the fact that lenders can obtain a tax credit that bumps up their yield. The same should apply in Renfe's case but the advantage is less clear.

Renfe will use the deal to back up

issues of Eurocommercial paper at a time when Spanish paper generally sells at a discount of 10 points to Libid. That means the facility is unlikely ever to be drawn, so that the potential tax advantages to lenders are rather academic.

In fact Renfe intends to cut the amount of the facility by half, three months after signing. This is because new regulations are due to come into effect in Spain under which Eurocommercial paper issues will no longer have to be fully backed up by standby facilities. It is paying a 4 basis point front-end fee for the facility which is arguably equivalent to 8 points on the smaller amount left after cutting.

Nonetheless the initial response from the market was that the rewards looked scant. Syndication is to be on a selective basis with Manufacturers Hanover looking for

banks to underwrite chunks of \$50m. The hope is that enough are willing to take on such a large commitment in return for the rare chance of being appointed as a dealer on a Eurocommercial paper programme guaranteed by the Kingdom of Spain.

In other words, the fine terms on this deal are the price of a subscription for such a coveted dealership. Competition may still prove strong enough to tip the balance in favour of the deal. Already on Friday about half the amount was covered. On the other hand, banks will also be looking at the cost of applying capital to a commitment which bears such a low return.

Most bankers assume that at some point a line will have to be drawn in this respect. Manufacturers Hanover argues that facility

fees are now already so low that their actual level does not matter. Haggle about every 1/4 basis point makes no sense when in cash terms it is worth only \$25,000 a year for a bank committed to \$50m.

Take this point to its logical conclusion, however, and one could wonder whether fees should be scrapped altogether. Perhaps banks should even start paying their customers for the privilege of doing business with them.

That, of course, is just too flip-pant. A more reasonable and general conclusion to be drawn from the terms of this deal is that the days of the standby facility to back up Eurocommercial paper issues for the best borrowers are simply on the way out.

through Morgan Guaranty which carries a margin of 1/4 point for the first two years, rising to 1/2 point thereafter.

Barclays de Zoete Wadd is arranging a \$150m loan facility for Next, the UK clothing retailer, with an accompanying \$100m commercial paper facility. Half the facility will be on a committed basis with a fee of 8 1/2 basis points, while the rest will be a reserve tranche at a fee of 3 1/2 points. Drawings will bear interest at a margin of 15 basis points over Libor.

J. Bibby, the agriculture products group, has launched a £70m paper programme through County Nat-West, while Cummins Financial of the US has appointed Goldman Sachs to lead a \$100m, five-year loan facility at an annual fee of 12.5 basis points.

This announcement is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute an offer of, or invitation to the public to subscribe for, or to purchase, any securities.

K

Christiania Bank og Kreditkasse
(Incorporated in the Kingdom of Norway with limited liability)

75,000 Warrants to subscribe for
U.S. \$75,000,000
7 3/4 per cent. Notes due 1994

The following have agreed to subscribe for the Warrants:

Merrill Lynch International & Co.

Genossenschaftliche Zentralbank Aktiengesellschaft
Sparekassen SDS

Manufacturers Hanover Limited
Vereins- und Westbank Aktiengesellschaft

Application has been made for the Warrants and the Notes, constituting the above issue to be admitted to the Official List by the Council of The Stock Exchange, subject only to the issue of the global Warrant and the global Note. The issue price of the Warrants is U.S.\$15 per Warrant. Each Warrant will entitle the holder to subscribe U.S.\$1,000 principal amount of the Notes at the exercise price of U.S.\$1,003.75 per Note plus accrued interest, if any. The Warrants may be exercised on 24th December, 1986 and on 17th March, 17th June, 17th September and 17th December in each year from and including 17th March, 1987 to and including 17th March, 1989.

Particulars of the Issuer and the listing particulars relating to the Warrants and the Notes are available in the statistical services of Extel Financial Limited. Copies of the Listing Particulars relating to the Warrants and the Notes may be obtained during usual business hours on any weekday (Saturdays and public holidays excepted) from the Company Announcements Office of the Quotations Department of The Stock Exchange, Throgmorton Street, London EC2 2 up to and including 3rd December, 1986 or during usual business hours on any weekday (Saturdays and public holidays excepted) at the address shown below up to and including 15th December, 1986.

Cazenove & Co.,
12 Tokenhouse Yard,
London EC2R 7AN

Citibank, N.A.,
Citibank House,
336 Strand,
London WC2R 1HB

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9th June, 1986 All of these securities have been sold. This announcement appears as a matter of record only.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Markets shrug off deepening crisis on arms sales

MANY US traders used Thursday's Thanksgiving holiday as an excuse to limit their trading activities to the first three days of last week, so the recent performance in the US credit markets may not be particularly reliable...

growth in 1987, but admits that its outlook is at the upper end of analysts' expectations. "While it is clear that some of the more recent data releases seemed more consistent with weaker rather than stronger economic growth, we do not believe that such evidence is yet sufficient to push the Fed toward an easier credit policy at the present time," says Smith Barney.

Mr Philip Braverman of Irving Securities is more committed in his belief that the Fed will eventually be forced to ease further, noting that "there is no other effective mechanism under the Fed's control to deal with proliferating weakness in the US economy."

The equity and fixed-income markets both managed to shrug off the news of the deepening political crisis in the US Administration over arms sales to Iran, and ended the week higher than they started.

The price of gold ended the week \$12 higher at \$390 an ounce and the US currency slipped below the DM 2 level and finished the week a shade above DM 1.87.

At the shorter end of the market, rates were little changed. At the weekly US Treasury bill auction, rates on the new 13-week bills dropped an average four basis points to 5.85 per cent...

Last week's economic news held no nasty surprises for the bond markets. US consumer prices rose by a lower than expected 0.2 per cent in October...

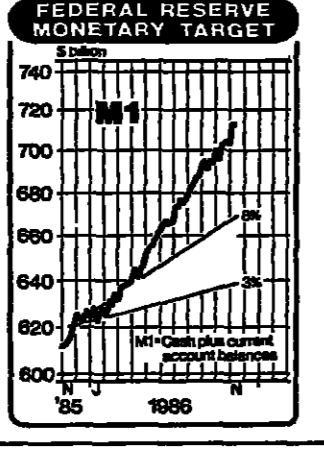


Table titled 'US MONEY MARKET RATES (%)' with columns for instrument, 1 week, 4 weeks, and 12-month rates.

Table titled 'US BOND PRICES AND YIELDS (%)' with columns for instrument, last change, 1 week, 4 weeks, and 12-month yields.

Money Supply: In the week ended November 17, M1 fell by \$7.2bn to \$712.2bn.

Table titled 'NNI TOKYO BOND INDEX' with columns for instrument, index value, and percentage change.

Source: Nomura Research Institute

UK GILTS

£400m issue brings rally to halt

ON TWO occasions in November the Bank of England made available stock which appeared to be targeted at pockets of demand in an otherwise fragile market.

About two weeks ago, the Bank took out its books two £50m tranches of index-linked stock and since then this sector has gone quiet.

However, the business was done in very mainstream stocks and suggests that last week's improvement in sentiment has not resulted in anything like generalised demand.

Two reports from securities houses shed some light. Greenwell Montagu concludes that the market can foresee a major fall in interest rates and gilt-edged yields would have to wait until a report for the current account improved.

that the pace of "junk bond" issues has slowed recently. Revlon's abandonment of its \$4.1bn bid for Gillette has removed the need for one major issue from the market...

Meanwhile, investment grade issues have again begun to dominate the new issue calendar. The Canadian province of Quebec brought to market a 40-year debenture which was priced at 102 basis points above the US Treasury 9 1/2 per cent due 2016...

Among other well-known corporate names tapping the market last week were American Express and Warner Lambert. The former raised \$250m of 10-year notes on a 7 1/2 per cent coupon which was priced at 99.4 to yield 7.063 per cent...

William Hall

FT/AIBD INTERNATIONAL BOND SERVICE

Large table containing international bond listings with columns for instrument, issued price, coupon, and yield.

Advertisement for Ireland U.S. \$500,000,000 Floating Rate Notes Due September 1998. Includes logos for Morgan Guaranty Ltd and various international banks.

All of these securities have been sold. This announcement appears as a matter of record only.

Vertical advertisement on the right edge of the page, including 'Plessey System' and 'Samancor' logos.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Plessey fails on System X deal

BY GUY DE JONQUIERES AND TERRY DODSWORTH IN LONDON

PLESSEY, the UK electronics and defence group, has failed in its attempt to break into the French market with its System X telephone exchange equipment following a three-month assessment by the telecommunications authorities.

The French decision to reject Plessey's bid was conveyed personally to Sir John Clark, chairman of the UK company, by Mr Gerard Longuet, Minister of Posts and Telecommunications, at a meeting in Paris last week.

Mr Longuet said that System X, the digital switch developed jointly by Plessey and GEC of the UK, did not meet the technical requirements of the Direction Générale des Télécommunications (DGT), the Government-owned telecommunications authority.

Plessey would not comment on the meeting in Paris. But the Government ruling almost certainly means that the company will have to abandon its plans to join the international bidding battle for the takeover of CGCT, the French company which has a stake of around 16 per cent in the \$370m-a-year domestic public telephone equipment market.

The decision also means that one more overseas market has closed to System X, which has won only one tiny foreign order in the West Indies so far. Contracts overseas to supplement deliveries to British Telecom in the UK will be essential.

Samancor surplus falls to R165.4m in interim

BY JIM JONES IN JOHANNESBURG

SAMANCOR, South Africa's largest manganese and ferro-alloys company, saw a worldwide drop in carbon steel production affect ore and alloy sales in the six months to September 30, 1986.

Nevertheless, strong demand for ferro-chrome and the persistent weakness of the rand against the dollar combined to lift the half-year's turnover.

The first-half's turnover rose to R401m (\$86.2m) from R351m in the corresponding period of 1985, but the interim operating profit before tax and interest fell to R3.5m from R5.4m and the pre-tax profit was R105.4m from R165.5m.

In the last financial year turnover totalled R802m and the pre-tax profit was R336m.

Leucadia buys 39% stake in PHLcorp

By William Hall in New York

LEUCADIA NATIONAL, the financial services and insurance group which has taken equity positions in several takeover stocks, is seeking control of PHLcorp, formerly known as Baldwin-United, whose collapse in 1983 sent shock waves through Wall Street and the insurance industry.

Leucadia has bought a 39 per cent stake in PHLcorp and said in a filing with the US Securities and Exchange Commission that it planned to hold a shareholders meeting as soon as possible to nominate its own directors.

Leucadia said it would conduct a detailed review of PHLcorp, its assets, operations, properties and policies and might seek to implement one or more plans or proposals to maximise the value of its investment. PHLcorp shares closed \$4 higher at \$114 on Friday.

Baldwin-United changed its name to PHLcorp last month as part of a plan to distance itself from its past following its emergence from one of the largest and most complex bankruptcy reorganisations in US corporate history.

The company is engaged primarily in trading stamps incentive schemes, travel services and insurance.

The company recently disclosed a pro-forma balance sheet as of the end of June which showed assets of approximately \$500m, of which just under half would have been assets of its insurance businesses. It estimated that it would have liabilities of \$491m, of which just over \$200m would have been reserves for life, accident and health and other insurance related benefits and \$170m would have been estimated liabilities for unredemmed trading stamps.

Mr Peter A. Martosella, PHLcorp's chief executive and a principal of the Palmire company which has a management services agreement with the group, said last month that with the reorganisation completed the company's management "intends to move vigorously to maximise the opportunities available to it."

Japanese utilities' profits rise 62%

BY YOKO SHIBATA IN TOKYO

COMBINED pre-tax profits of Japan's nine main electric power utilities surged 62.5 per cent to Y820.1bn (\$3.83bn) in the first half-year in September, drawing benefit from the yen's appreciation and falling crude oil prices.

In addition to the three major companies - Tokyo Electric Power, Kansai and Chubu - another three which achieved record results were Hokkaido, Shikoku and Kyushu.

Windfall profits from the strong yen and cheaper crude amounted to Y898bn, up about Y80bn from their initial projections. From the windfall, the nine companies made rebates totalling Y490.5bn to customers including industrial users. The remainder was retained as internal reserves.

Combined electricity sales fell 0.5 per cent to 259.6bn kilowatt hours, or a 7.4 per cent fall in value terms to Y5,940.5bn. This reflected depressed industrial power consumption in manufacturing industries which have been hit hard by the appreciation in the Japanese currency.

For the second half-year, the nine power companies expect an increase in demand for electricity from household and service sector users. However, demand for industrial use is thought unlikely to recover yet. The electricity generating industry is likely to come under pressure from export industries to cut power rates substantially at a scheduled adjustment in charges on January 1.

JAPANESE ELECTRIC POWER COMPANIES

Parent company results, half-year to September 1986

Table with columns: Sales (Ybn, %), Pre-tax profit (Ybn, %), Net profit (Ybn, %). Rows include Hokkaido, Tohoku, Tokyo, Chubu, Hokuriku, Kansai, Chugoku, Shikoku, Kyushu.

JAPANESE TRUST BANKS

Parent company results, half-year to September 1986

Table with columns: Operating income (Ybn, %), Pre-tax profit (Ybn, %), Net profit (Ybn, %). Rows include Sumitomo, Mitsubishi, Daiwa, Tokai, Sanwa, Industrial Bank of Japan.

Canadian bank improves

BY BERNARD SIMON IN TORONTO

BANK OF NOVA SCOTIA, Canada's fourth biggest banking group, raised net income to C\$386.2m (US\$243m) or C\$1.94 per share, in the year to October 31, from C\$305.6m, or C\$1.82 a share, in fiscal 1985. Fourth-quarter earnings rose from C\$82.3m to C\$100.1m.

The bank ascribed the improvement partly to a 5 per cent increase in earning assets to C\$59.6m, mainly in the form of Canadian loans, mortgages and bankers acceptances. Non-interest income climbed 23 per cent to C\$45m, reflecting higher foreign exchange revenues, corporate credit fees and new products.

Annual loan losses grew from C\$376.3m to C\$435.4m. BNS's loan loss provisions in the table on page 15 of the Canadian Banking Survey published on October 3 were inadvertently shown as quarterly figures, instead of the nine-month data given for other banks. BNS's nine-month provisions were C\$306.3 in 1986 and C\$224.2m last year.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Issuer, Amount (\$m), Maturity, Av. life years, Coupon %, Price, Book Runner, Offer yield %. Rows include U.S. DOLLARS, CANADIAN DOLLARS, D-MARKS, SWISS FRANCS, LUXEMBOURG FRANCS, YEN.

Advertisement for J. Bibby & Sons PLC. Features the company logo, name, and details of a £70,000,000 Multi-Option Facility arranged by County NatWest Capital Markets. Lists underwriting banks and tender panel members.

Advertisement for Paterson Zochonis. Features the company name in large letters, 'Record profits for 1986', and a 'Summary of Results' table showing turnover, profit, and earnings. Includes images of Paterson Zochonis perfume bottles.

UK COMPANY NEWS

THE MCCORQUODALE CASE

Panel chairman to explain 'concert party' rejection

By Raymond Hughes, Law Courts Correspondent

SIR JASPER HOLLOW, chairman of the City Takeover Panel, will today tell the Court of Appeal why the Panel rejected a 'concert party' complaint made by Prudential-Bache, the US securities house...

British Gas to take soft line on late applications

By Richard Tomkins

As the response to the £5.6bn offer for sale of shares in British Gas gathered momentum over the weekend, N. M. Rothschild, the merchant bank sponsoring the issue, indicated that it was likely to take a soft line over applications which failed to arrive before this Wednesday's 10 am deadline...

Barry Riley on the listing of MIL Research Expanding into a bigger league



Mr Rudi Goldsmith, the MIL chairman

ON HEARING Rudi Goldsmith and Stanley Orwell arguing with each other, the visitor might conclude that their relationship could not last long. In fact, the two have been close business partners for more than 30 years...

Johns, Ford, Jaguar, Rover and Volvo are among the manufacturers using this service...

Table with 2 columns: Year, Turnover, Profit. Rows for 1982, 1983, 1984, 1985, 1986.

The third specialty sector is information technology, where MIL's subsidiary Industrial Data has helped to set up the Comtec service...

The question of providing for management succession has also been a factor. The excitable and volatile Rudi Goldsmith is said to have provided the company's business drive...

Rushlake has 10% stake in Mitchell Cotts

Rushlake Holdings has increased to 10 per cent its stake in Mitchell Cotts, the engineering, chemical and trading group...

Cranswick Mill lower

Cranswick Mill Group, the USM-quoted animal feeds manufacturer and dealer in wholesale livestock, reported pre-tax profits down from £428,000 to £381,000 in the half year to September 27, 1986...

Munton £1.9m rights

Munton Brothers, clothing manufacturer and supplier to Marks and Spencer, has announced that it is proposing to issue £1.9m of rights...

Leopold Joseph down midway

Leopold Joseph Holdings, banking and merchant banking concern, said profits for the half year to September 30, 1986 were somewhat lower than in the corresponding period of the previous year...

Alice Rawsthorn looks at the latest USM flotation Northumbrian makes a healthy debut

ALL TOO often accounts of a company's passage to public quotation make it all sound so simple. As the experience of Northumbrian Fine Foods, a health food and biscuit concern which is joining the USM tomorrow, shows it is often fraught with difficulties...

factory was rented, the machinery second hand. The company had no assets to use as security for a loan. But in order to increase sales, then standing at £39,000, Mr Adams desperately needed to expand...

Northumbrian is still active in the product development field. It aims to introduce between 20 and 30 new products a year and uses the flexibility of its small production base to do so...

Northumbrian decided to go public in July after narrowly missing a takeover opportunity. In retrospect Mr Adams is convinced that an offer of shares would have helped...



Jungle Bar - the recent innovation devised as a healthy alternative to chocolate

Circaprint

Circaprint Holdings, USM-quoted maker of circuit boards produced slightly lower pre-tax profits for the year to August 31, 1986 at £277,000 against £336,000 on turnover which rose from £7.35m to £8.51m...

COMPANY NEWS IN BRIEF

MILFORD (DONGAL) Bakery and Flour Mills: Final dividend 2.5p (nil), making 2.5p for the year ended August 30, 1986. Turnover £8.6m (£8.4m) and pre-tax profit £241,272 (£226,376) loss. Net profit £23,894 (£256,551 loss) after tax of £11,585 (£18,624 credit). Earnings per share 4.68p (£4.02 loss)...

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interim or final and the subdivisions shown below are based mainly on last year's statements...

FT Share Information

The following securities have been added to the Share Information Service: Berry, Birch & Noble (Section: Insurance) Citygrove (Property) Comtech 113pe Gtd. Conv. Uns. Ln. 1986 (Industrial) Interlink Express (Industrial) Nationwide Bldgs. Soc. 113pe 26/10/87 (Loans, Building Societies) Newage Transmissions (Engineering)

Advertisement for Gaynor Group plc, including share capital details and contact information for Capel-Cure Myers.

Advertisement for Waterford Wedgwood Holdings plc, including share capital details and contact information for S.G. Warburg & Co. Ltd.

Advertisement for Alliance & Leicester Building Society, including details of £200,000,000 Floating Rate Notes 1993.

FINANCIAL TIMES STOCK INDICES table showing various indices like Government Sec., Fixed Interest, Ordinary, Gold Mines, FT-Ad All Share, FT-SE 100 with their respective values for Nov 29 and Nov 27.

Advertisement for Korea Exchange Bank, including details of £100,000,000 Floating Rate Notes due 1994.

AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Abbey Unit Trst, Allied Dealer Unit Trst, and others, including their managers and performance data.

FT UNIT TRUST INFORMATION SERVICE

Main table of unit trusts categorized by region: FT Investment Managers Ltd, Fidelity Investment Services Ltd, Key Fund Managers Ltd, etc.

Continuation of unit trust listings, including sections for FT Unit Trust Managers Ltd, FT Unit Trust Managers Ltd (a), and various international funds.

Advertisement for The Princess Alice Hospice, featuring a picture of a building and text about hospice care.

FT CROSSWORD PUZZLE No. 6,191

Crossword puzzle grid with clues for 'HIGHLANDER'.

ACROSS 1 Quiet that's somebody for Baker (6) 2 He always remembers the place disintegrating (8) 3 Follow instructions as pronounced by article on Church suspension (8) 4 Oval is lacking something assumed to be there (8) 5 Support given to one working with old Army group (6) 6 Part of it contains ideas for contents (6) 7 Hypothesis held by politician is explosive (6) 8 Unresponsively evasive about misplaced legal qualification (6) 9 Prone to get embarrassed about German music (6) 10 Type of paint container with dairy produce inside (6) 11 Piece of masonry representing tree-god of ancient Rome (6) 12 Badly floored by beginner? Nonsense (8) 13 Was Victor running after wife? (3) 14 You retreat on hearing ladies' guardian (6) 15 The hour in the morning for food (3) 16 Live round: take note and fall back (3) 17 Run into group taking late breakfast (3) 18 Barren plain (3) 19 Miner is wrong about hard rock (8) 20 To quote me about that is sickening (6) 21 Heard and told stories about military weapon (8) 22 The way individuals find diamonds (6) 23 Cheers up lads, it appears wrongly (6) 24 Stress there's a grave one in France (6) DOWN 1 Robber has to edge round royal retreat (8)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

AUTHORISED UNIT TRUST & INSURANCES

Main table listing various insurance and unit trust products, organized by company and product type. Includes columns for company name, address, and product details.

Handwritten signature or stamp at the bottom of the page.

Vertical text on the right edge of the page, possibly a page number or reference.

INSURANCE, OVERSEAS & MONEY FUNDS

Handwritten note: 10/1/86

Table of financial data for various insurance and investment funds, including columns for fund names, NAV, and performance metrics.

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Money Market Trust Funds

Money Market Bank Accounts

TRADITIONAL OPTIONS

3-month call rates

Table of traditional options and 3-month call rates, including columns for instrument names and prices.

NOTES: Information regarding the accuracy and use of the data provided in the table.

BRITISH FUNDS

Table of British Funds with columns for Fund Name, Stock, Price, Last, Bid, Offer, and Yld. Includes sections for 'Shorts' (Lives up to Five Years), 'Five to Fifteen Years', and 'Over Fifteen Years'.

AMERICANS - Cont.

Table of American Funds with columns for Fund Name, Stock, Price, Last, Bid, Offer, and Yld. Includes sections for 'CANADIANS' and 'AMERICANS'.

LONDON SHARE SERVICE

BUILDING, TIMBER, ROADS - Cont.

Table of Building, Timber, and Roads shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

DRAPERY & STORES - Cont.

Table of Drapery and Stores shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

ENGINEERING - Continued

Table of Engineering shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

INDUSTRIALS - Continued

Table of Industrial shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

CHEMICALS, PLASTICS

Table of Chemicals and Plastics shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

ELECTRICALS

Table of Electrical shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

FOOD, GROCERIES, ETC

Table of Food, Groceries, etc. shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

HOTELS AND CATERERS

Table of Hotels and Caterers shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

INDEX-LINKED

Table of Index-linked shares with columns for Fund Name, Stock, Price, Last, Bid, Offer, and Yld.

CANADIANS

Table of Canadian shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

BEERS, WINES & SPIRITS

Table of Beers, Wines & Spirits shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

DRAPERY AND STORES

Table of Drapery and Stores shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

AMERICANS

Table of American shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

INDUSTRIALS (Misc.)

Table of Industrial (Miscellaneous) shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

INT. BANK AND OVERSEAS GOVT. STERLING ISSUES

Table of International Bank and Overseas Government Sterling Issues with columns for Fund Name, Stock, Price, Last, Bid, Offer, and Yld.

COMMONWEALTH & AFRICAN LOANS

Table of Commonwealth and African Loans with columns for Fund Name, Stock, Price, Last, Bid, Offer, and Yld.

LOANS

Table of Loans with columns for Fund Name, Stock, Price, Last, Bid, Offer, and Yld.

BEERS, WINES & SPIRITS

Table of Beers, Wines & Spirits shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

AMERICANS

Table of American shares with columns for Company Name, Stock, Price, Last, Bid, Offer, and Yld.

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Financial Times Monday December 1 1986

INDUSTRIALS - Continued. Table listing various industrial stocks with columns for Stock, Price, Last, Bid, Offer, and % Chg.

LEISURE - Continued. Table listing leisure-related stocks with columns for Stock, Price, Last, Bid, Offer, and % Chg.

PROPERTY - Continued. Table listing property-related stocks with columns for Stock, Price, Last, Bid, Offer, and % Chg.

INVESTMENT TRUSTS - Cont. Table listing investment trusts with columns for Stock, Price, Last, Bid, Offer, and % Chg.

FINANCE, LAND - Cont. Table listing finance and land-related stocks with columns for Stock, Price, Last, Bid, Offer, and % Chg.

MINES - Continued. Table listing mining stocks with columns for Stock, Price, Last, Bid, Offer, and % Chg.

NOTES. Unless otherwise indicated, prices and dividends are in pence and denominated in pence. Dividends are based on the latest reported figures. Dividends are based on the latest reported figures. Dividends are based on the latest reported figures.

This announcement appears as a matter of record only.

November 1986



J. BIBBY & SONS PLC

£70,000,000

Sterling Commercial Paper Programme

Dealers

County NatWest Capital Markets Limited Samuel Montagu & Co. Limited

Arranged by

County NatWest Capital Markets Limited

Issue and Paying Agent

National Westminster Bank PLC

EURO BROKERS HOLDINGS INC

We are pleased to announce that the management buyout of various sections of Euro Brokers Harlow Limited, New York, Toronto & Los Angeles, together with the dollar deposit and capital market operations of Harlow UEDA Savage Ltd, London from MAI plc was completed today.

The London Company will trade as Euro Brokers Limited, the New York and Los Angeles Companies as Euro Brokers Inc, and the Toronto Company as Euro Brokers Canada Limited.

If you would like any further information, please contact David Gladman in London, telephone 01-626 7890, or Brian Clark in New York, telephone 212-938 4800.

Euro Brokers Inc One World Trade Center Suite 3111 New York NY 10048

Euro Brokers Ltd Adelaide House 5th Floor London Bridge London EC4R 9EQ

GRANVILLE SPONSORED SECURITIES

Company	Price	Change	Gross Yield	P/E
Asst. Brit. Ind. Ord.	125	-	7.5	5.4
Asst. Brit. Ind. CULS	147	-	10.2	6.1
Armitage and Rhodes	38cd	-	4.2	11.1
B&B Design (USM)	64	-	1.4	2.2
Berry Technology	206	+2	4.8	2.2
Carlson	52	-	4.8	4.7
CCL Ordinary	136	+8	2.9	2.1
CCL 11pc Conv. Pref.	107	-	15.7	14.7
Carborundum Ordinary	282d	+1	3.1	5.9
Carborundum 7.5 pc Pref.	93	-	10.7	11.5
Federick Parker Group	22	-	5.8	4.2
George Blair	90	-	3.0	6.7
Ind. Precision Castings	64cd	-	18.3	11.9
Isis Group	154	-	11.9	8.9
Jackson Group	127d	+1	6.1	4.9
James Burroughs	363	-	17.0	4.7
James Burroughs 8 pc Pref.	85	-	12.9	13.9
Multihouse NV (AmstSE)	780	-10	-	-
Record Highway Ordinary	370	-4	-	-
Record Highway 10pc Pref.	87	-	14.1	18.2
Robert Jenkins	85	-	-	-
Scintons "A"	38	+2	-	-
Taylor and Carlisle	132	+2	5.7	-
Trevin Holdings	140	-	7.9	2.3
Unilock Holdings (SE)	80	+6	2.8	3.5
Walter Alexander	101	-	5.0	4.9
W. S. Yates	128	-	17.4	10.2
W. Yates Ind. Hosp. (USM)	85	-	6.8	8.3

Granville & Co. Limited 8 Lower Lane, London EC3R 8EP Telephone 01-621 1212 Member of FIMBRA

Granville Davies Coleman Limited 27 Lower Lane, London EC3R 8DT Telephone 01-621 1212 Member of the Stock Exchange

Contracts and Tenders

WANDSWORTH BOROUGH COUNCIL INSTA. AND HOT WATER SYSTEMS AT WANDSWORTH, LONDON, SW18.

Contractors wishing to be considered for selection by tender for the installation of individual gas-fired boilers serving 232 occupied flats at Wandsworth Council House, Wandsworth, London SW18 2JG, should submit their proposals to the Director of Administration, Room 115, Town Hall, Wandsworth, London SW18 2JG, by 2.00 pm on December 15, 1986. Questions referred to the same office.

SCOTLAND

A Financial Times Survey The Financial Times proposes to publish a Survey on the above on Tuesday December 16 1986. For further information, contact: KENNETH SWAN Financial Times 37 George Street Edinburgh EH2 2JH Telephone: 031-526 4139 FINANCIAL TIMES EUROPE'S BUSINESS NEWSPAPER

BASE LENDING RATES

Bank	Rate	Bank	Rate	Bank	Rate
ABN Bank	11	Chubb PA	11	Marshall & Co.	11
Admiral & Co.	11	Citibank	11	Met. Credit Corp. Ltd.	11
Alfred Arab Bank Ltd.	11	City Merchants Bank	11	Met. Sec. of Kuwait	11
Alfred Dreyfus & Co.	11	Cyprusbank	11	National Girobank	11
Alfred Isra. Bank	11	Com. Br. & Ind.	11	Nat. Westminster	11
American Exp. Co.	11	Co-operative Bank	11	NatWest Bank Ltd.	11
Arens Bank	11	Cyprus Popular Bank	11	Norwich & York	11
Bank of America	11	Dominican Bank	11	Paribas Bank	11
Bank of Australia	11	E. T. Trust	11	Paribas Bank Ltd.	11
Bank of Canada	11	Equitable Tr. Co. Ltd.	11	Paribas Bank of France	11
Bank of China	11	First Nat. Sec. Ltd.	11	Paribas Bank of Italy	11
Bank of India	11	Foreign & Gen. Sec.	11	Paribas Bank of Spain	11
Bank of Japan	11	First Nat. Sec. Ltd.	11	Paribas Bank of Switzerland	11
Bank of Korea	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Netherlands	11
Bank of London	11	First Nat. Sec. Ltd.	11	Paribas Bank of the United States	11
Bank of Mexico	11	First Nat. Sec. Ltd.	11	Paribas Bank of West Germany	11
Bank of New York	11	First Nat. Sec. Ltd.	11	Paribas Bank of Yugoslavia	11
Bank of Paris	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Philippines	11
Bank of Rome	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Czech Republic	11
Bank of Scotland	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Slovak Republic	11
Bank of Singapore	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Czechoslovak Republic	11
Bank of Spain	11	First Nat. Sec. Ltd.	11	Paribas Bank of the German Democratic Republic	11
Bank of the Middle East	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Polish People's Republic	11
Bank of the West	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Romania	11
Bank of Tokyo	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Vietnam	11
Bank of the East	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Cuba	11
Bank of the South	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Laos	11
Bank of the North	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Cambodia	11
Bank of the East	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Laos	11
Bank of the South	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Cambodia	11
Bank of the North	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Laos	11
Bank of the East	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Cambodia	11
Bank of the South	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Laos	11
Bank of the North	11	First Nat. Sec. Ltd.	11	Paribas Bank of the Socialist Republic of Cambodia	11

The Hongkong and Shanghai Banking Corporation announces that with effect from 1 December 1986 its UK Merchant Bank Hongkong Bank Ltd is changing its name to James Capel Bankers Ltd

7 Devonshire Square London EC2M 4HN Tel: 01-626 0566

member: HongkongBank group

First National Securities Ltd. First National Management Ltd. announce that with effect from 1st December 1986 the Home Loan rate will be 12 1/4%

First National House, College Road, Harrow, Middle, HA1 1FB

CONSTRUCTION

Crossing the Bosphorus

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

The giant French construction company BOUYGUES is studying the possibility of building a £221m (£Fr 3bn) road and rail tunnel under the Bosphorus straits which divide the European and Asian halves of Turkey's capital Istanbul.

The tunnel would be the first ever below the straits. Bouygues has agreed to complete a feasibility study of the project by December 15. Details of the project will then be discussed by the company and municipal officials, said Mr Ataturk Ozgu, Istanbul's municipal secretary general.

If it went ahead, the tunnel would provide a third Bosphorus crossing to supplement the existing overloaded suspension bridge and the second bridge which is still only under construction. It is predicted to become overloaded in the early 1990s.



The Istanbul municipality's announcement of its contract with Trafalgar has already caused the company considerable embarrassment as the scheme was only in its earliest stages and the company wanted to keep its idea secret from potential rivals.

New the Bouygues tunnel—which would include a six-lane road and two fast-tram tracks—is the first crossing to be made public. Bouygues would be asked to bear the construction costs and recover its expenses from tolls on the route before handing it over to the Turks, said Mr Ozgu.

£36m order for Gleeson

M. J. GLEESON GROUP has won contracts for the north and south east of the group has secured works at the Imperial War Museum, Chessington Zoo and structures at Stevenage for Greycoat Shopping, the total value being £3.6m.

M. J. Gleeson (Northern) has contracts for finishing works at Haysham power station for the Central Electricity Generating Board worth £3.5m and sewage treatment works at Camnock, Strathclyde valued at £1.4m; three contracts for reservoir repair at Horsham in Yorkshire, Ladybower and Foremark in Derbyshire, worth a total of £1.5m and a new £1.5m reservoir at Dunblane for Central Scotland Water Development Board.

Balfour Beatty build for BA

BALFOUR BEATTY BUILDING has been awarded four further contracts by British Airways, for whom the company has been working for the past five years.

A steel-framed simulator building will be constructed at Cranebank, Hounslow, under a £2.8m contract for completion by November 1987. At Speedbird House, Heathrow Airport, alterations are underway to computer rooms under a £237,000 contract due for completion in February 1987.

NOTICE OF REDEMPTION TO HOLDERS OF INDUSTRIAL BANK OF FINLAND LTD

Kuwaiti Dinars 6,000,000 7 1/2 per cent. Guaranteed Notes due 1989

Sixth Mandatory Redemption Due 15th January, 1987 Of Kuwaiti Dinars 900,000 NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Notes of the above-mentioned issue, Kuwait Investment Company (S.A.K.), as Fiscal Agent, has drawn by lot, for redemption on 15th January, 1987, at 100% of the principal amount thereof through operation of the Sinking Fund, Kuwaiti Dinars 900,000 principal amount of said 7 1/2% Notes due 15th January, 1989, bearing the following distinctive numbers:

00528-00547	02292-02325	03927-03972
00631-00651	02468-02498	04013-04040
00792-00825	02576-02618	04491-04524
01047-01072	02911-02955	04701-04744
01220-01249	03218-03271	05771-05801
01443-01481	03360-03405	05827-05849
01841-01883	03576-03606	05873-05910
02080-02125	03722-03778	05943-06000

The Notes specified above will become due and payable in Kuwaiti Dinars at the offices of Kuwait Investment Company (S.A.K.), Mubarak Al-Kabir Street, Kuwait City, State of Kuwait, or, at the option of the bearer, but subject to applicable laws and regulations, at Citibank, N.A., 336 Strand, London WC2R 1HB and at Kredietbank S.A., Luxembourg, 43 Boulevard Royal, Luxembourg, by cheque drawn on a Kuwaiti Dinar account with, or by a transfer to a Kuwaiti Dinar account maintained by the payee with, a bank in Kuwait, from, and after, 15th January, 1987, interest on the above mentioned Notes will cease to accrue.

Notes should be surrendered for payment together with all unmaturing coupons appertaining thereto, failing which the face value of the missing unmaturing coupons will be deducted from the principal amount.

The aggregate principal amount of Notes remaining outstanding after 15th January, 1987, will be Kuwaiti Dinars 1,800,000.

KUWAIT INVESTMENT COMPANY (S.A.K.) on behalf of INDUSTRIAL BANK OF FINLAND LTD.

Dated: 1st December, 1986

World Pulp & Paper Conference

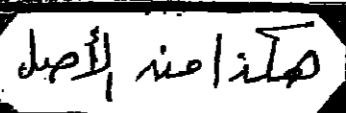
11 & 12 December 1986, London

FT A FINANCIAL TIMES CONFERENCE

For information please return this advertisement, together with your business card, to: Financial Times Conference Organisation, Minister House, Arthur Street, London EC4R 9AX. Alternatively, telephone 01-621 1355, telex 27347 FTCONF G, fax 01-623 8814.

I.G. INDEX FT for December 1, 1986-1, 1986 (unchanged) Tel: 01-828 5699

WORLD STOCK MARKETS



AUSTRIA 1986 High Low Nov. 28 Price Frs. 8,550 8,190 Credit Nat. pp 3,210

BELGIUM/LUXEMBOURG 1986 High Low Nov. 28 Price Frs. 5,800 5,800 S.B.L. 3,100

DENMARK 1986 High Low Nov. 28 Price Krz. 970 510 Baltica Bond 640

GERMANY 1986 High Low Nov. 28 Price Dm. 2,475 2,190 Allianz Var. 1,265

NETHERLANDS 1986 High Low Nov. 28 Price Gld. 44.45 ADF Holding 60

SWITZERLAND 1986 High Low Nov. 28 Price Frs. 8,975 8,460 Adia Ind. 9,970

SPAIN 1986 High Low Nov. 28 Price Ptas. 1,325 415 Iso Banca 1,195

SWEDEN 1986 High Low Nov. 28 Price Kroner 390 175 AGA 189

NORWAY 1986 High Low Nov. 28 Price Kroner 994 149 Bergens Bank 198.5

AUSTRALIA 1986 High Low Nov. 28 Price A\$ 4.1 2.55 AGI Int. 4.05

FRANCE 1986 High Low Nov. 28 Price Frs. 1,811 1,475 Emprunt 4 1/2 1871,630

NETHERLANDS 1986 High Low Nov. 28 Price Gld. 44.45 ADF Holding 60

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JAPAN 1986 High Low Nov. 28 Price Yen 1,970 1,150 Alimotomoto 1,910

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CANADA 1986 High Low Nov. 28 Price Cdn. 3720 3100 AMCA Int. 3100

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MONTREAL 1986 High Low Nov. 28 Price Cdn. 10487 9175 Bny/Am 9200

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TORONTO Closing prices November 28

TORONTO Closing prices November 28. Table with columns: Sales, Stock, High, Low, Close, Change. Includes AMCA Int, Alimotomoto, Alimotomoto, etc.

OVER-THE-COUNTER Nasdaq national market, closing prices, November 28

OVER-THE-COUNTER Nasdaq national market, closing prices, November 28. Table with columns: Stock, Sales, High, Low, Last, Change. Includes Alimotomoto, Alimotomoto, etc.

Indices

Indices. Table with columns: Index, Nov. 27, Nov. 26, Nov. 25, High, 1986, Low. Includes DOW JONES, Industrials, etc.

NEW YORK

NEW YORK. Table with columns: Nov. 27, Nov. 26, Nov. 25, High, Low. Includes DOW JONES, Industrials, Financials, etc.

Indices

Indices. Table with columns: Nov. 27, Nov. 26, Nov. 25, High, Low. Includes AUSTRALIA, BELGIUM, DENMARK, etc.

NEW YORK

NEW YORK. Table with columns: Nov. 27, Nov. 26, Nov. 25, High, Low. Includes DOW JONES, Industrials, Financials, etc.

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CANADA

CANADA. Table with columns: Nov. 27, Nov. 26, Nov. 25, High, Low. Includes Toronto, Montreal, etc.

NEW YORK ACTIVE STOCKS

NEW YORK ACTIVE STOCKS. Table with columns: Stocks, Closing price, Change. Includes Ford, IBM, etc.

SWITZERLAND

SWITZERLAND. Table with columns: Nov. 27, Nov. 26, Nov. 25, High, Low. Includes Swiss stocks.

SWITZERLAND

SWITZERLAND. Table with columns: Nov. 27, Nov. 26, Nov. 25, High, Low. Includes Swiss stocks.

SWITZERLAND

SWITZERLAND. Table with columns: Nov. 27, Nov. 26, Nov. 25, High, Low. Includes Swiss stocks.

Closing prices, November 28

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Main table containing stock prices for various companies, organized in columns with headers for stock name, price, and change.

Continued on Page 33

Handwritten signature or scribble at the bottom of the page.

Vertical advertisement on the right edge of the page, featuring the word 'COMP' at the top and 'business' and 'ANCIA' in a stylized font at the bottom.

NYSE COMPOSITE CLOSING PRICES

Table of NYSE Composite Closing Prices for various stocks, including columns for stock name, price, and change.

AMEX COMPOSITE CLOSING PRICES

Table of AMEX Composite Closing Prices for various stocks, including columns for stock name, price, and change.

OVER-THE-COUNTER

Table of Over-the-Counter closing prices for various stocks, including columns for stock name, price, and change.

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CURRENCIES, MONEY & CAPITAL MARKETS

LONDON RECENT ISSUES

EQUITIES

Table listing recent equity issues in London, including company names, issue sizes, and closing prices.

FIXED INTEREST STOCKS

Table listing fixed interest stocks, including details on coupon rates, maturities, and prices.

"RIGHTS" OFFERS

Table listing rights offers from various companies, including the amount of rights offered and subscription details.

U.S. TREASURY BILLS (MILL)

Table listing U.S. Treasury bills, including maturities and yields.

DEUTSCHE MARK (MILL)

Table listing Deutsche Mark securities, including maturities and yields.

THREE-MONTH EUROBORROW (MILL)

Table listing three-month Euroborrow, including maturities and yields.

SWISS FRANK (MILL)

Table listing Swiss franc securities, including maturities and yields.

U.S. TREASURY BONDS (GVT) %

Table listing U.S. Treasury bonds, including maturities and yields.

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Table listing U.S. Treasury bonds, including maturities and yields.

FOREIGN EXCHANGES

Dollar falls on political and economic news

THE DOLLAR is hovering in a position of renewed weakness, and although the market was reluctant to take the US currency to new lows last week, it did finish on Friday at the lowest level since January 1981.

day's Thanksgiving holiday into a lull. The lowest trading level at that time was DM 1.9730 on Friday, compared with the previous 52-week low of DM 1.9740 on Friday.

members of the present Administration becoming casualties of the Iran arms sale scandal, and the diversion of funds to the Nicaraguan rebels.

orders had more impact. These fell by a very large 6 per cent in October, against forecasts of around 1.5 per cent.

per cent to 0.5 per cent, compared with 0.4 per cent in September, and factory goods orders on Thursday will fall 0.6 per cent.

As last week ended a further weakening of the dollar seemed inevitable, with dealers watching the relatively stable rate against the yen to decide whether the strains were becoming too great to keep the recent agreement between the US and Japan from falling apart.

EMS EUROPEAN CURRENCY UNIT RATES

Table showing EMS European Currency Unit rates for various currencies.

STERLING INDEX

Table showing the Sterling Index for different time periods.

CURRENCY MOVEMENTS

Table showing currency movements for various currencies.

CURRENCY RATES

Table showing current currency rates for various currencies.

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Table showing rates for other currencies.

FORWARD RATES AGAINST STERLING

Table showing forward rates against sterling.

MONEY MARKETS

Tone remains nervous in London

THE STRUCTURE of interest rates on the London money market continued to underpin the present 11 per cent level of UK bank base rates, but the underlying tone remained nervous, in spite of another very quiet week.

UK clearing bank base lending rate 11 per cent since October 15 weakened against many other currencies, including the D-Mark.

based on end of the month rather than mid-month market. Dealers therefore turned their attention to the October trade figures.

lowered by a particularly depressing picture of the US economy from the National Institute for Economic and Social Research on Wednesday.

The institute forecast a widening of the current account deficit to \$200m from \$200m in September.

It was also predicted that growth would be slow, inflation would rise and there would also be higher public spending.

FT LONDON INTERBANK FIXING

Table showing FT London interbank fixing rates.

BANK OF ENGLAND TREASURY BILL TENDER

Table showing Bank of England Treasury bill tender results.

WEEKLY CHANGE IN WORLD INTEREST RATES

Table showing weekly change in world interest rates.

MONEY RATES

Table showing money rates for various currencies.

BANK OF ENGLAND TREASURY BILL TENDER

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LONDON MONEY RATES

Table showing London money rates.

NEW YORK (Closed)

Table showing New York market rates.

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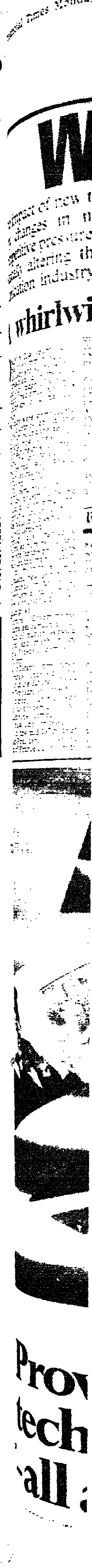
LONDON MONEY RATES

Table showing London money rates.

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Advertisement for 'WESTLB' (Westdeutsche Landesbank) offering fixed income and equities trading.

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World Telecommunications

The impact of new technology, coupled with regulatory changes in many countries plus mounting competitive pressures between equipment suppliers is radically altering the shape of the world telecommunication industry.

A whirlwind of change

ONLY A few years ago, the telecommunications industry across the world presented a somewhat neat and tidy image of a business which fitted smoothly into the parameters of a natural monopoly.

True, there were complaints in many countries about the quality of service and the delays in bringing new lines into operation. But the task of wiring the world for the telephone seemed one that was ideally adapted to centralised control and uniform management. Today, this certainty over the shape of the industry is being swept away as telecommunications throughout the industrialised West heads into a period of painful re-adjustment.

Technology has radically altered the economics of the industry, both for the providers of service and the manufacturers. Users, meanwhile, are equally making new and more testing demands on the telephone providers as their need for more sophisticated communication grows.

Furthermore, governments have become less certain about the virtues of public service monopolies, and much more supportive of ideas of competitive efficiency.

These different pressures have entirely changed the debate about the future of the industry. Ten years ago, the big question in many countries was how long it took to persuade the local telephone company to install a new line; indeed, it was only in the mid-1970s that the then-President Giscard d'Estaing of France put his rep-

utation on the line to force through a crash programme to expand his country's national network.

Yet, while installation delays may still be a concern, the issues facing the industry today are very different. They fall broadly into two main areas: what degree of competition should be injected into the system, on one hand? And how should equipment manufacturing be organised, on the other?

The first question—the issue of how to introduce competition to the system—is proving just as difficult to resolve, as the critics of change said it would. The problem is relatively straightforward. On the one

hand, it may be that competition would, as the reformers claim, generate more responsiveness and innovation in the industry. But on the other, the basic provision of lines is easiest to arrange in most cases through a single system; and once that supply is established, it is more simple to channel other services through it in a monopoly organisation, under some kind of regulation.

Indeed, unlike some other industries that are being subjected to radical change as new technologies and new world markets are opened up, telecommunications is irretrievably inter-twined with questions of public policy.

In the early days of the telephone business, governments came to see it as a strategic resource. More recently, many



Ice coats the aerials at Britain's biggest radio station, on top of a Scottish mountain at Greenlawther, in Dumfries and Galloway. British Telecom engineers, who maintain the station at 2,400 ft above sea level, use a Snow-trac vehicle in bad winter weather.

countries overtly or tacitly encouraged socially-oriented policies aimed at putting moderately-priced telephones within the reach of anyone who wanted one.

Most pricing systems were skewed, through some sort of monitoring or regulatory system, to allow long-distance calling, supported mainly by business users, to subsidise private residential lines.

Even in the US, where market forces generally hold more sway, the social objective of providing a telephone for the lonely farmer living in remote areas was built into a powerful argument for subsidising local services by long-distance callers.

The way in which governments achieved these social and organisational aims differed from country to country so that at present, as some of the regulatory structure begins to be dismantled, the changes are also extremely variable.

In the US, for example, the break-up of AT&T has imposed an arbitrary division between the local and long-distance telephone operations, but it has left a large slice of equipment manufacturing, which in most countries is organised in separate companies, in the hands of the AT&T long-distance group. Meanwhile, the local groups are barred from both the equipment and long-distance areas.

In the UK however, competition is being introduced through licensing an alternative operating company while controlling prices so that the new company has a fair chance of establishing itself. Japan appears to be heading in the same direction. Some European countries, meanwhile

give the impression that there will be moves towards wider choice within the framework of a single supplier of telephone systems.

As deregulation puts down roots in several countries, it still remains to be proven whether customers receive better services from a tightly-organised monopoly or a free-reined competitive system.

Even in the US, where deregulation has gone furthest, and where the regulators are making an enthusiastic push to liberalise local telephone company operations as well as the long-distance network, it is difficult to prove the case either

way.

The greater variety of services and equipment now available has also led to rising confusion among the public, and indications of a decline in some service standards. For example, it may now take longer to have a new line installed.

The impact of deregulation on

supplier companies is now much more clear. Liberalisation is imposing strains on an industrial structure which has already been battered by the imperatives of technological advance, and which is looking outward to a period when the whirlwind of innovation threatens to grow even stronger.

One outcome of regulatory change is that manufacturers are, in some cases, being cut off from the stable, cash-generative section of the telecommunications industry—the telephone operating business. In the US, AT&T used to manufacture equipment, supply it and operate it, so its telephone divisions were always bringing in a steady stream of cash to support its investment in research and development and new products.

In the UK, the forerunner of British Telecom pumped money into the development of new equipment in joint ventures with independent suppliers. These two companies—GEC and Plessey—will have to support future equipment development from their own budgets alone, just like AT&T.

Another result of liberalisation is that equipment producers can no longer be assured of a domestic market in which to cover the costs of the development of their products. The opening of markets means introducing an element of competition across national frontiers which has not been seen in telecommunications before.

Furthermore, as manufacturers examine ways of spreading the cost of developing new equipment—it is estimated, for example, that the next range of public digital switches will cost at least \$1bn each—they are faced with a situation in which winning orders in other peoples' backyards is a condition of survival.

The heightening of competitive pressures in this way looks like a recipe for trade friction. Indeed, the signs are that such a struggle is already beginning on a French battlefield after what some now see as a pro-emptive strike by CGE, the owner of CIT Alcatel, the French public switch manufacturer, to take

Leading world manufacturers of telecommunications equipment

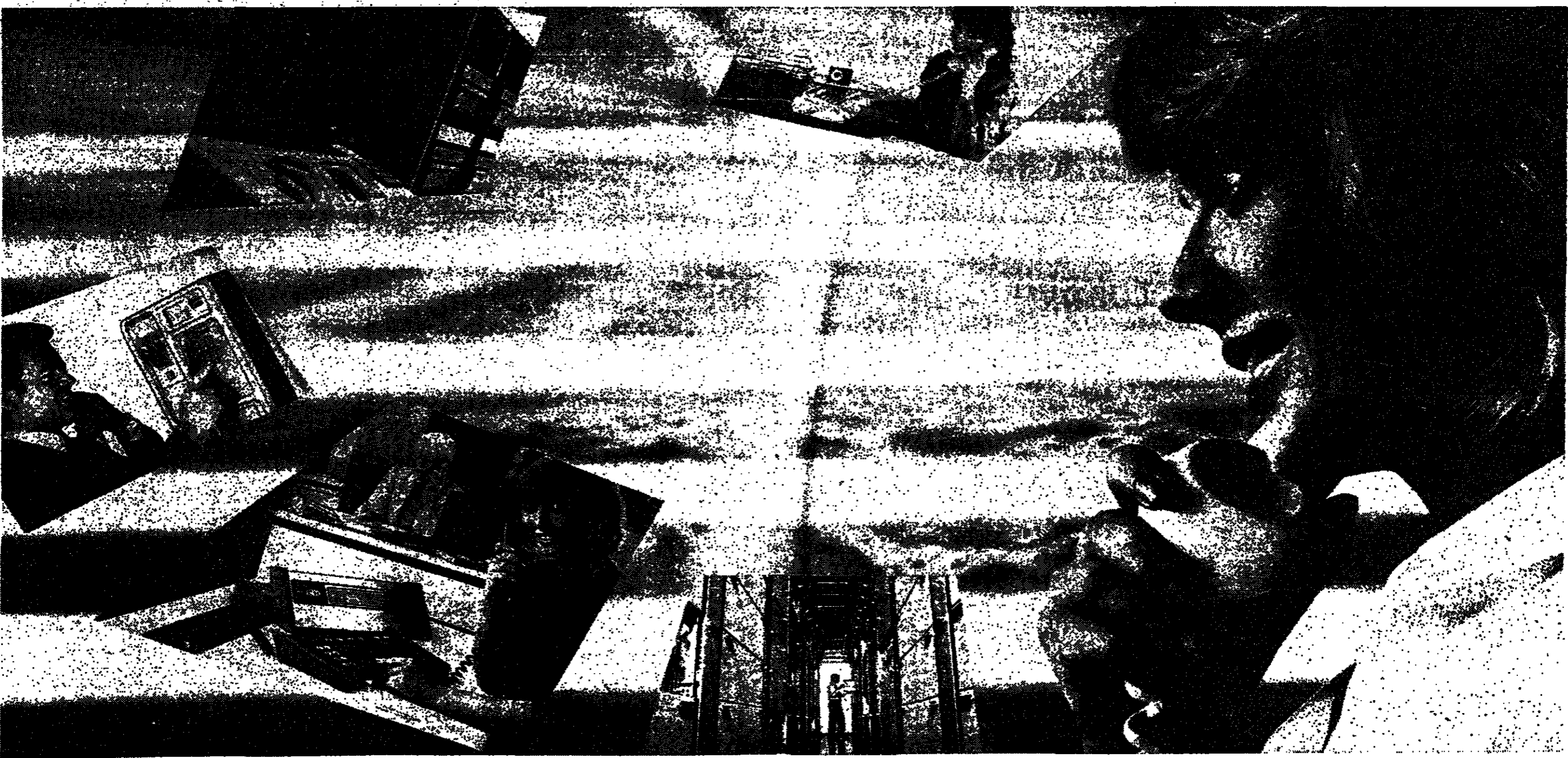
Company	Telecommunications sales* 1984 £m
AT & T (US)	7,590
ITT (US)	3,500
Siemens (West Germany)	2,530
Northern Telecom (Canada)	2,460
L. N. Ericsson (Sweden)	2,380
NEC (Japan)	2,010
Alcatel-Thomson (France)	1,935
GTE (US)	1,710
Philips (Netherlands)	893
GEC (UK)	746
Fujitsu (Japan)	744
Plessey (UK)	677
Italtel (Italy)	470

* Figures for GEC and Plessey include overseas sales and some business systems. Figures for other companies may also include business equipment. Source: Monopolies and Mergers Commission.

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World Telecommunications 2

US telephone deregulation

Subscribers still have doubts

THREE YEARS after the break-up of AT&T in January 1984, the jury is still out on the impact of US telephone industry deregulation.

One of the most complex re-organisations ever forced on a large industrial and commercial structure has been worked through with relative speed and a surprising lack of predictable surprises.

But it is by no means clear whether the US will end up regretting the demise of the old Bell system with its ability to deliver a slick national service that was the envy of the world.

The task that was imposed on the authorities in the wake of the Justice Department decision to dismember AT&T was a delicate one. They had to engineer the gradual liberation of the market—and particularly the long-distance business—while avoiding both uncontrolled chaos on the one hand, or the re-emergence of the old monopoly structure under a free-market hat on the other.

The problem was essentially one of grappling with the enormous strength of the Bell system—neither shackling it unduly, nor allowing the large installed base and unparalleled service experience of the Bell companies to swamp new competitors before they were established.

The difficulty of maintaining discipline in such a process can best be illustrated by a typical long-distance business call from, say, New York to San Francisco. In the post-break-up environment, this will start off in an office on a telephone set which may well have been built in South Korea, and be transferred to the outside world via a switchboard which could have been acquired from any number of companies, but which would, under the traditional system, have been supplied by AT&T.

The call will then go to the facilities of the local telephone operating company, a descendant of the Bell system, which will route it on to a long-distance carrier.

For these trunk lines there are now several possibilities, ranging from the numerous small operators (who lease lines or sell them) to the big players—AT&T, with about 80 per cent of the market, MCI and US Sprint.

In California, for example, the long-distance company will transfer the call to another local operating group, which will send it via more customer equipment—possibly a Hong Kong-made handset, to the recipient of the call in San Francisco.

This operating structure is clearly more complex than using AT&T from beginning to end—complications which inevitably gave considerable grounds for scepticism at the time of the break-up.

First, the critics argued, such a system was likely to be less easy to run and simple to understand for the consumer. There was a strong possibility that the enviable speed and efficiency which AT&T had established in installing and maintaining lines would be sacrificed for a more cumbersome organisation.

Opponents contended that there would be long delays in services because there would be a confusion of responsibility over various bits of the network.

Second, there was a fear that prices for local users could rise exorbitantly—some said by as much as 300 per cent—as a result of the decline of the subsidy for the residential network from long-distance calling.

The old system, the critics claimed, was more logical and socially responsible, allowing virtually anyone to have a telephone because local rates were kept down. In such an industry, they argued, it made more sense to control prices through the regulatory process, rather than the market place.

None of the changes has proved as drastic or as damaging as the critics had suggested, however. This is partly because the regulatory process is still there, with the Federal Communications Commission (FCC) in Washington controlling the introduction of new long-distance services, and the local Public Service Commissions maintaining a grip on the regional operating companies. The change to a multi-supplier system has also been achieved relatively smoothly, and with some significant improvements to offset the teething troubles.

On the debit side, telephone company officials concede that it now takes longer to install a new service than before the break-up. Delays were particularly acute just after the change in the structure in 1984, and have been reduced considerably since then as the telephone companies have shaken down their new organisations.

Business probably suffers most because private dedicated lines and Wide Area Telecommunications Services (WATS) tend to demand the co-ordination of several companies (the local operating groups, the long-

US telecom sales forecasts

US telecom sales forecasts		
• Premises equipment in \$m		
Sector	1986	1990
Terminal equipment	5,226	4,428
Sub communications equipment	3,679	6,587
Local area network connections	645	1,000
Switching equipment	5,046	7,442
Attached network functions	776	2,148
• Public telecom sales in \$m		
Transmission equipment	3,679	5,478
Switching equipment	3,312	2,674
Public telecom services	137,462	209,587
Cellular mobile radio	1,200	4,650

Source: Datamation

distance network, and equipment suppliers), rather than the one-stop AT & T organisation of yesterday.

Residential rates have also gone up sharply—by around 45 per cent on one estimate—as more of the cost of the local infrastructure has been loaded on to the area where the expenditure is incurred. This is clearly well over the rate of inflation, and has brought a disproportionate part of the "cost" of deregulation to bear on the less well-to-do.

In addition, there is no doubt that deregulation has sown confusion in the public. Some people do not understand the long-distance choices being offered to them. Others are irritated by too much choice—the telephone boxes which now take two or three long-distance cards are often the ones that callers avoid at airports.

On the other side of the coin, however, long-distance rates have fallen rapidly. They are now down by 22 per cent on average over the three-year period, despite the continuation of some access charges on the long-distance companies to link into the local network.

Customers in most of the US can also choose an alternative supplier to AT&T on the long-distance lines, with less hassle than in the past. They no longer have to dial an elaborate code to link into the alternative service before putting through their calls; and they can buy the alternative service for between 8 to 10 per cent less for business

customers and up to 35 per cent less in the case of residential clients.

Independent studies suggest that the quality of service is also improving—partly a by-product of the move to fibre optic cables, but one which has probably been hastened by the introduction of a competitive system.

At the same time, product prices have continued to fall dramatically. Private exchange equipment has come down to about \$500 a line from \$1,000 a line before the break-up.

For the companies that used to comprise the total Bell system, the break-up has produced mixed fortunes with strong profits from the seven regional holding companies, and a more patchy record from the rump of the old AT&T—now a long-distance operator, equipment manufacturer and research and development company.

The change in structure has given them all the opportunity to slim down and improve their efficiency with big job reductions which might have been difficult to achieve under the old structure.

"They have been enabled to make changes under the cover of deregulation which they would not have been able to do otherwise," says Mr Francis McInerney, vice president of Northern Business Information, the research group.

The big question mark hanging over the industry now is how much further deregulation will be pushed through in the regions, where the Bell operating companies are still the regulated carriers.

Recommendations

Only a few weeks ago, Mr Mark Fowler, chairman of the FCC and two other officials of the regulatory agency, published a discussion document advocating wholesale liberalisation of the local markets. They recommended that operating companies should have more freedom to set their tariffs, in return for an open network architecture design for the local area changes that would allow anyone to access the equipment freely.

Mr Fowler argued that there are countless entrepreneurs awaiting to take advantage of such a change to introduce a variety of services—automatic switch-on for central heating devices, for example, burglar alarms, or over-the-line medical checks-ups.

The FCC proposal has not fol-

lowed on stony ground, however. Ten states at least have made some form of deregulatory move in the past two years, and Nebraska is pushing for a fairly substantial form of local liberalisation. Not all the local operating companies want more freedom in their own backyards, but some like US West, for example, have pushed quite hard for it.

These companies want the freedom to introduce new services from which they are banned at present, and perhaps even more important, the ability to alter their tariffs to fight off competitive challenges.

They are all worried, for example, about the by-pass problem, under which businesses set up their own communications networks and completely miss out the public system.

The problem with tariff changes is that they often tend to militate against the weakest customers, the low-volume, frequently remotely-situated, residential users who, unlike business clients, represent a cost rather than a flow of profits to the operating companies. This is the battlefield over which the local deregulation issue will eventually be fought.

Terry Dodsworth



The US financial sector is setting the pace in advanced business telecommunications; left, a section of Salomon Bros' main trading floor in New York

US regional companies

Seven Baby Bells grow up

AT & T and US regional holding company results

Company	3rd quarter revenue \$m	3rd quarter income \$m	3rd quarter EPS	9 months revenue \$m	9 months income \$m	9 months EPS	access lines
AT & T	8.43	533.0	0.48	25.56	1,484.0	1.32	N.A.
Ameritech	2.3	291.6	3.03	6.99	861.0	8.90	14,693,000
Bell Atlantic	2.5	277.9	1.49	7.3	895.2	4.48	15,406,000
Bellsouth	2.89	399.2	1.26	8.62	1,228.0	3.94	13,000,000
NYNEX	2.87	314.3	1.55	8.39	921.6	4.55	13,845,000
Pacific Telesis	2.31	285.1	1.32	6.79	842.0	3.92	11,940,000
US West	2.14	268.3	1.41	6.22	718.4	3.78	11,880,000
Southwestern Bell	1.96	257.5	2.58	5.89	741.5	7.44	11,876,000

Source: IRI's Natchez, research agencies

Shares of the operating groups in a way that makes them look anything but the dowdy utilities that were being written about in brokers' circulars three years ago.

Total investment returns for the group—the "magificent seven"—has averaged better than 30 per cent, including both dividends paid and share price appreciation.

Nynex, at the top of the list, has achieved a 35.4 per cent return up to September 30 of this year, followed by Bell South on 35.1 per cent, while only one of the group has achieved less than 20 per cent for shareholders—Southwestern Bell at 20.9 per cent.

The last three months, however, seem to indicate that some of the earlier gains from the break-up have now been digested.

The main diversified activities of each of the operating companies are as follows:

• Ameritech: The Chicago-based group owns Applied Data Research, an IBM computer software company from Princeton, New Jersey, along with profitable publishing and finance activities and a 20 per cent stake in Canadian cellular mobile telephone group.

It is expecting that between 30 per cent and 50 per cent of its annual earnings growth will come from non-regulated telephone activities by 1990.

• Bell Atlantic: An aggressive diversifier, Bell Atlantic has branched out into minicomputer distribution in Canada, and telecommunication equipment marketing in Texas.

It has also moved into financial services, particularly through the purchase of Greyhound Capital from the long-distance coach operator, and a computer leasing group in Europe. Earnings growth in this division could approach 50 per cent of the group's total next year, it says.

• Bell South: With stronger than average growth in its basic business, Bell South has moved cautiously on its diversification programme. It is expanding into national directory sales, has established an in-house real estate business, and has acquired 40 per cent of a cellular and paging company in London.

• Nynex: Nynex has been fighting hard to protect its directory publishing against Southwest-ern Bell's attempts to break into the lucrative Manhattan market, it is also showing interest in pressing for local deregulation in certain areas in order to offer a broad range of services.

• Pacific Telesis: PacTel, a wholly-owned subsidiary for the group's unregulated activities, has moved into cellular tele-phones, equipment sales and publishing of visitor guides. It is also expanding in international markets, using its operating know-how to capture contracts in China and South Korea for advice on the 1988 Olympics.

• Southwestern Bell: Trapped in a region which has suffered heavily from the decline in the oil and farming sectors, Southwestern Bell has made a drama-

tic foray into the cellular phone business with the acquisition of Metromedia's activities in this area for \$1.2bn, the biggest single purchase by any of the regionals.

US West: Also keen to bolster sluggish regulated earnings through diversification, US West has built a diversified activities group consisting of cellular, equipment sales, directory

publishing, real estate and financial services.

Its property division holds almost \$700m of real estate, while its finance subsidiary is involved in computer leases and receivables, and it is seeking permission to offer insurance and brokerage services.

Terry Dodsworth

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Telecommunications & Data Communications

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World Telecommunications 3

Long-distance Services in US

Most callers now have a choice

OVER THE last 12 months the US long-distance telephone industry has edged forward towards the brave new competitive world conceived by the anti-trust lawyers in the break-up of AT&T three years ago. The market has become more open and less regulated. Prices have dropped like a stone—by about 23 per cent on the last count.

It is still not clear, however, to what extent the AT&T monopoly has been dismantled, or what structure will finally emerge to take its place in this huge, \$50bn-a-year business.

The most significant changes fall into two main categories:

• The first is the rapid development of alternative vehicles to the AT&T network. The installation of new equipment to allow these alternatives an equal ability to hook into local exchanges (equal access), now means that about 7 out of 10 Americans can choose to make their calls via a rival carrier.

Customers were canvassed earlier this year to choose their favoured vendor, and by September they had been linked into the service of their choice in areas covering 70 per cent of the country.

Under the new system, users no longer have to go through an elaborate dialling procedure to pick up a non-AT&T service, a procedure which was regarded as a significant disincentive to moving to the new carriers under the old regime.

• Second, the regulatory framework which was designed to put a straitjacket on AT&T during the early part of the break-up period, has been considerably loosened, allowing it to operate on more equal terms with its smaller competitors.

Following the break-up order, AT&T had its enormous market power deliberately blunted by forcing it to pay a higher "access charge" to the local telephone operators than its rivals.

The access charges were a deliberate attempt to levy a kind of tax on the long-distance carriers, who have a preponderance of business customers, to pay for wiring and infrastructure costs at the local level. By this means, administrators aimed to keep prices down so that telephones remained within the financial reach of the poorest families.

To reflect the increasing competition in the market, the higher access charge demanded from AT&T has been steadily reduced, and the charges of its competitors gradually increased, until now there is no differential between the two in some areas.

The change is plunging the long-distance carriers into an environment which is relatively undistorted by regulatory demands. It is consequently becoming more difficult for AT&T's challengers to compete on price alone, undercutting the larger group by taking advantage of its higher access charge.

Other factors are now gaining more prominence in the performance picture: direct, fast and cost of service, and the ability to attract sufficient traffic volume to carry the overheads racked up through ambitious expansion plans.

As the terms of the long-distance battle business have changed, it is becoming apparent that the challengers to AT&T's position are still struggling to develop viable alternative businesses. Among the



In the US a caller uses Airfone, one of the world's first public air-to-ground telephone services available to airline passengers.

US long distance telephone market

Company	1984 Revenue \$B	1985 Revenue \$B	1986 Est Revenue \$B	1989 Proj Revenue \$B	1984 Mkt share %	1985 Mkt share %	1986 Est market share %	1989 Proj market share %
AT&T	33.19	34.91	36.00	NA	91.0	86.0	81.0	72.0
MCI	1.96	2.54	3.45	NA	4.0	6.0	8.0	13.0
US Sprint	1.245	1.345	1.500	NA	2.0	3.0	4.0	9.0
Others	3.60	5.20	9.05	NA	3.0	5.0	7.0	6.0
Total market	40.0	44.0	50.0	62.0	100.0	100.0	100.0	100.0

Source: MHA Research, research associate.

problems they have faced, and in many cases continue to face, are the following:

• The cost of investment to construct sufficiently large networks to compete with AT&T is proving a heavy strain on the financial resources of the newcomers.

MCI, the largest of the alternative long-distance groups, and the company which first began the challenge on AT&T's dominance 25 years ago by winning regulatory approval for a microwave service in St Louis, is spending \$1bn a year at present on its long-distance lines.

US Sprint, the second largest of the newcomers, is in the middle of an 18-month long \$1.5bn programme.

• AT&T's pricing policy is putting increasing pressure on its rivals. In the equal access areas—the 70 per cent of lines that have been converted to give long-distance carriers exactly the same switching facilities—the new companies no longer enjoy a discount on the access fee paid to the local operators. This allows AT&T, with its lower fixed costs, to cut prices and try to erode the tariff advantage enjoyed by its competitors.

MCI says that its prices are still about 10 per cent lower than AT&T's across the board, and between 5 and 85 per cent cheaper for residential customers, but maintaining the price differential is severely trimming its margins.

In the other 30 per cent of the US market, the old situation still applies. Here, the new companies enjoy lower access charges, but continue to suffer from the long-code dialling which customers need to use their services.

• In the advertising battle which has raged this year to secure first choice customers, AT&T has been able to spend much more heavily than its competitors. Some estimates put budgeted spending as high as \$500m this year by all the carriers, with AT&T accounting for at least two-thirds.

The alternative carriers complain that they have been at a disadvantage in this campaign partly because they have not been able to target customers so precisely as their larger competitor, which clearly has superior historical knowledge of the market.

In addition, the extra cost has been very considerable for companies of their size—GTE says it will spend about \$60m in the last half of the year.

• Most of these questions come down to the problem of size. As AT&T has become less restrained, and has responded by improving its own efficiency to compete with its challengers, they have become more exposed to the strains imposed by their limited scale. The answer has been a wave of mergers among the newcomers.

In the first of these amalgamations, MCI took over the SBS long-distance subsidiary of IBM in a deal in which the computer group also took a minority stake in the communications company.

SBS had started off as an ambitious scheme to transmit voice and data for large business customers, mainly over microwave links, but failed to attract the volume to make it viable.

The deal with MCI has taken SBS into a more conventional cut-price long-distance operation, while holding out the possibility that IBM can use the business as a link in its drive into the market for integrated data and communications.

With the addition of SBS, MCI now claims to have about 4.5m customers, of which 3.6m are residential. It has also managed to increase its penetration among the Fortune 500 companies, bringing its total to 450 companies against 407 at the beginning of the year.

With about 8 per cent of the US market it is still well short of the 15 per cent target it has set itself, and which many analysts think is a necessary condition for survival in the business.

It is pushing ahead with its expansion plans, however, and reckons it will have 5,500 miles of fibre optic cable in the ground by the end of this year, and about 10,000 by the end of 1987.

Similarly, GTE, the big independent telephone operating group, has this year merged its Sprint long-distance subsidiary into United Telecommunications' US Telecom subsidiary in a 50-50 joint venture. This creates a group, US Sprint, with a customer base of around 2.6m and a network of 13,500 miles of fibre optic cable already in the ground.

By the end of next year it is expecting to complete 23,000 miles. The immediate benefit of the merger to GTE was to reduce losses running at around \$200m a year, while reducing



For US equipment-users, an ever-growing choice: above, Motorola's Dyna portable cellular radio telephone.

the cash outflow involved in building up the network.

In a much smaller deal, the fourth largest US long-distance carrier was also created about a year ago when Allnet and Leveltel came together to form ACL Communications.

These three newly-merged groups, along with innumerable smaller companies which exist by selling leased spare capacity for the larger networks, have unquestionably made a dent in AT&T's dominant market position.

Estimates indicate that the group's share of US long-distance revenues has deteriorated from a little over 90 per cent of the market two years ago to just over 80 per cent today.

In the recent round of customer polls to select long-distance customers, AT&T is reckoned to have captured around 75 per cent of the vote. Despite this steady decline in its market position, AT&T's volume of business has still kept growing because of the rapid expansion in the US long-distance market, which has been moving up recently at between 8 and 10 per cent a year.

Many analysts also consider that the group's ability to hold onto 75 per cent of its customers in the recent poll was a victory in itself—at the time of the break-up, some gloom-mongers were predicting a precipitous decline to only around 60 per cent of the market by this point. And with its large installed base and lower relative costs, it has continued to make profits out of its long-distance lines at a rate which makes its competitors look like also-rans.

Indeed, the main immediate question for the AT&T competitors is whether their finances will hold out long enough to allow them to win a significantly large market base to begin to earn adequate profits.

In a commodity-type business, they need volume to survive. But they are finding it a very expensive business to buy that volume as the Federal Communications Commission takes down some of the defensive screens behind which they were able to grow to their present size.

Terry Dodsworth

Whirlwind of change

Continued from Page 1

over ITT's exchange manufacturing division. The link up will create the second largest equipment supplier of its kind in the world.

Although many analysts claim that it will be very difficult to make this merger work, it has been enough to stir up the rest of the industry.

Siemens of West Germany, with a French group which will have more than 80 per cent of the West German market through the ITT link, has quickly stepped in to stake its claim to a chunk of the French

market through a take-over of CGCT, which supplies about 16 per cent of the French public exchange market.

The Siemens bid would have been all very well if AT&T of the US had not made a previous offer and come close to clinching it with the approval of the French Government, the ultimate owner of CGCT and Alcatel.

But now the fate of CGCT, a company which has rarely made a profit for several years, and whose main virtue lies in its potential to give manufacturers additional volume and geographical reach in a tight marketplace, has dragged in Governments as well.

Behind Siemens, the West German Government has been lobbying heavily in France, while the US administration has weighed in on the part of AT&T, so far as to threaten a ban on Siemens sales of telephone exchange equipment in the US if the West German manufacturer is allowed to win the bid for CGCT.

This outburst of trade friction, in which the US authorities angrily attacked Europe for alleged protectionism, demonstrates the exceptional importance which Governments attach to their telecommunications companies. The big groups in the industry continue to be seen as technology leaders and national champions in a growth sector.

It is natural, therefore, that governments, including even those that have liberalised their domestic markets, should intervene and try to help out on behalf of their country's flagship. It is even more to be expected in an industry in which regulation is totally ingrained.

But it will not help the overall health of the sector at a time when the need to rationalise capacity suggests that governments should be turning their attention to the creation of a new order, rather abusive skirmishes around the body of a disintegrating corporation.

World sales of public switching equipment

• Sales by leading manufacturers in \$m

Company	1985 Sales of all public switching equipment \$m
AT & T	1,350
Northern Telecom	1,000
NEC-Fujitsu-Hit	1,000
Siemens	950
ITT	850
Ericsson	750
Alcatel-Thomson	700
GTE	350
Plessey	260
GEC	260
Haitel	180
Philips	130†
Stromberg-Carl	70‡
Others	120
Total	7,970

† Or latest year available. ‡ AT & T product. § Plessey subsidiary, but selling a range of public switching equipment specifically for US market. Source: Manpower and Mergers Commission report.

US Central Office Sales and Market Share

• Figures by supplier with sales in \$m; lines and trunks in thousands

Company	1984 CO sales \$	Local lines installed	Local market share %	Toll trunks installed	Toll market share %
AT & T	2,413	3,185	45.8	706	47.4
Northern Telecom	1,135	1,909	27.4	514	34.5
GTE	791	1,525	21.9	227	15.2
Plessey	95	195	2.8	19	1.3
ITT	50	90	1.3	19	1.3
NEC	20	40	0.6	5	0.3
CIT	5	12	0.2	0	0.0
Other	0	0	0.0	0	0.0
Total	4,509	6,956	100.0	1,490	100.0

Note: There is a time lag between when a sale is recognised and when a system is installed; consequently sales and installation market sales are not directly comparable.

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up

results

Terry Dodsworth

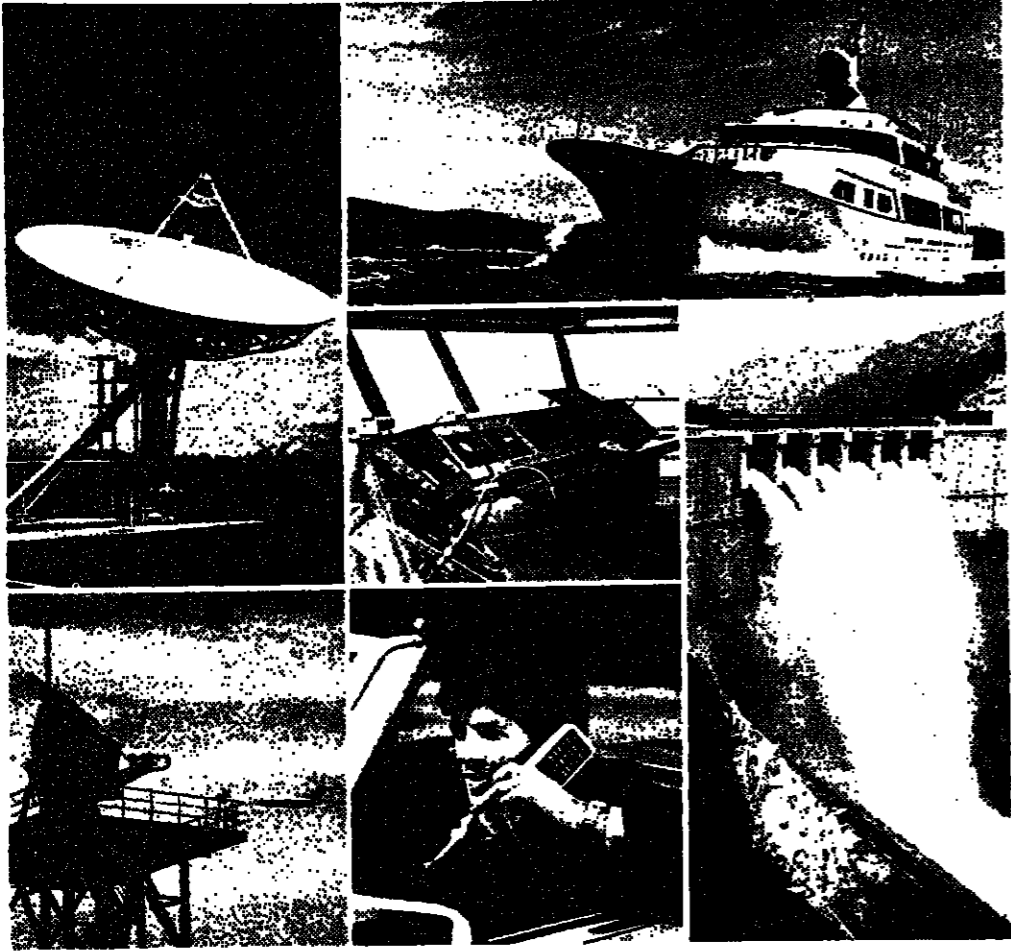
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West European Scene

Old patchwork begins to come apart

THE THREADS which have kept Western Europe's patchwork of telecommunications markets and industries tightly stitched in place for the best part of a century are starting to unravel. But exactly what new pattern will emerge is still far from clear.

State-controlled monopolies, which have long dominated telecommunications in most European countries, are under growing pressure to adapt to competition and changing market needs. Since Britain liberalised its market in 1981, France, the Netherlands and West Germany have all launched reviews of their national policies.

Simultaneously, Europe's overcrowded equipment industry faces huge challenges, too. Squeezed by protected national markets, tougher international competition and rising costs, the industry appears ripe for rationalisation.

A dramatic step was taken in this direction earlier this year when CGE of France and IIT of the US agreed to merge their equipment businesses in a joint venture which would create the world's second-largest manufacturer, with operations in a dozen countries.

These developments are the product of a diverse array of pressures for change which have built up more or less simultaneously over the past few years. The main ones include:

- Technological convergence, which is rapidly eroding traditional boundaries between telecommunications and computing and with other industries such as financial services and retailing.
- International competition in equipment and services, fuelled by US deregulation and the break-up of American Telephone and Telegraph.
- Mounting demands for wider choice and more economic tariffs, particularly from large business telecommunications users.
- Political pressures within many countries for changes in the role and style of operation of national telecommunications administrations (PTTs).
- The urgent need of manu-

facturers, particularly of public exchanges, which are increasingly captive of their protected home markets, to expand so as to acquire the economies of scale necessary to finance soaring development costs.

Though many of these pressures are common to all European countries there is a considerable divergence of response. Different countries are moving at varying speeds and adopting different solutions, making it hard to detect a clear overall direction for the future.

The confusion stems partly from the fact that European countries in redefining their telecommunications policies, are seeking to pursue two separate goals. They want to stimulate more vigorous and innovative markets for telecommunications equipment and services while also building up a more efficient and to some extent more competitive supplier industries. But these objectives are not proving easy to reconcile.

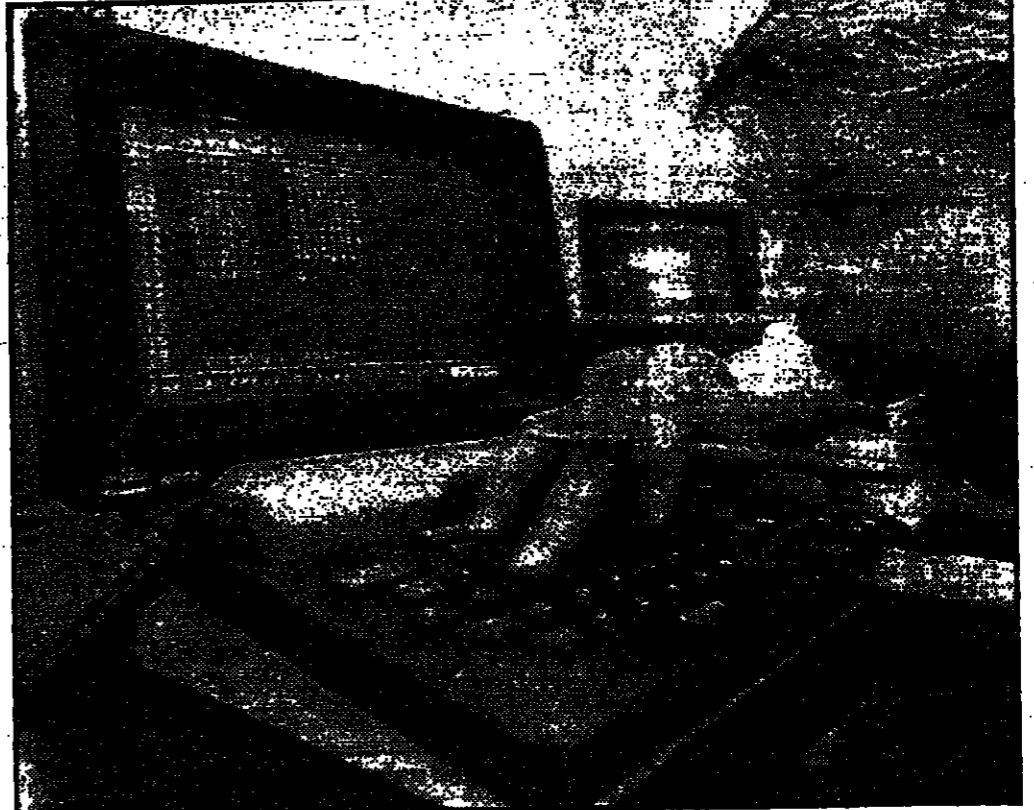
Governments in many countries have come to recognise that the traditional monopoly system, which has treated telecommunications as a sedate supply-driven utility, is no longer appropriate to an industry which is being drastically reshaped by rapidly changing technology and falling costs.

Hence many PTTs are under pressure both to make their own operations more efficient and to market several countries have already taken steps to liberalise the supply of customer equipment and value added network services, though so far permitted competition in the public telephone network in the form of Mercury Communications, a subsidiary of Cable and Wireless.

The urge to liberalise is tempered by caution, however. No country wants to throw open its market simply to have it overrun by foreign competitors. Behind much of the recent policy debate appears to lie a desire for governments to stimulate just enough competition to keep the PTTs (posts, telegraphs and telecommunications) on their mettle but not so much as to jeopardise their commercial position.

Licensing and bureaucratic as they appear to their critics, the PTTs are also widely acknowledged to possess a vital strategic role in the national efforts. Their massive financial, technical and commercial resources endow them with powerful potential as defenders of the national interest both in the home market and internationally against rivals such as IBM, AT&T and the Bell telephone companies.

Thus, in the UK, the government's actions to curb British Telecom's domestic market have alternated uneasily with a tendency to view BT as an emerging "flagship" of the high-technology industries. Earlier this year, the Government rejected the advice of the Monopolies and Mergers Commission and authorised BT to move into



On-screen directory: in France, a secretary checks the phone numbers on-screen when the seven-digit numbering system was changed to eight digits to boost the number of possible subscriptions available.

World sales of public switching equipment

Company	1985 Sales in £m	1986 Sales of public switching equipment in £m
AT & T	1,350	1,350
Northern Telecom	1,000	1,000
NEC-Fujitsu-Hit	1,000	1,000
Siemens	950	950
IIT	850	850
Ericsson	750	750
Alcatel-Thomson	700	700
GTE	350	350
Plessey	250	250
SEC	250	250
Hitachi	180	180
Philips	130	130
Siemens-Carl	70	70
Others	120	120
Total	7,970	7,970

* Or latest year available. † AT & T product. ‡ Plessey subsidiary, but selling a range of public switching equipment specifically for US market.

manufacturing by buying control of Mitel, the Canadian PABX maker.

But while more and more PTTs are seeking a copy of the liberalisation from their European counterparts, the US, backed by the Netherlands Government, has urged France to sell CGCT to AT&T, which has a joint equipment venture with Philips of the Netherlands.

Many observers believe that the resolution of the controversy may prove a watershed for the future of European equipment markets. Views are divided, however, on whether the CGE/IIT deal, if it goes ahead, will advance or retard the process of market opening.

Some critics argue that, having once secured access to IIT's customer base in Europe, CGE would dearly like more independence to pursue its own

business and enforce more competitive procurement policies.

However, the DGT has been out-manoeuvred by CGE, its main traditional supplier, which first engineered a link-up with AT&T and subsequently with IIT. The fear in the DGT is that these agreements, which have still to be approved by the French Government, may severely restrict its future choice of suppliers.

The ramifications of the CGE/IIT affair have, of course, spread far wider than the DGT and have developed into an international political controversy into which the West German, US and Netherlands Governments have all been drawn.

Although CGE has sought to present the IIT deal as a "European" initiative, many other countries are sceptical, viewing it largely as a tactic by the French state-owned group to advance its own interests by gaining control of IIT's large European customer base.

Born has reacted by pressing the French Government to seek the nationalised CGCT telecommunications group to Siemens, the West German electronics group, which would thus gain control of CGCT's 16 per cent share of French public exchange orders.

The West German intervention, in turn, has incensed the US Government, which fears that France and West Germany are seeking a copy of the liberalisation from their European counterparts, the US, backed by the Netherlands Government, has urged France to sell CGCT to AT&T, which has a joint equipment venture with Philips of the Netherlands.

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fresh competition could be extremely unattractive to CGE while it was wrestling with the formidable task of integrating IIT's equipment with its own product range.

The outcome of the CGE/IIT affair is likely to have longer-term implications for the EEC's recent efforts to strengthen Europe's telecommunications industry by stimulating subsidised collaboration between leading manufacturers and the PTTs.

The thrust of the EEC's initiatives lies in promoting common EEC-wide standards and co-operation on the development of advanced systems. The centre programme is Race, a joint programme intended to lay the basis for wideband telecommunications networks which are expected to enter service in the 1990s.

The programme has been widely applauded by the industry and by EEC governments. But it is at best only a partial solution to the industry's problems since it is not buttressed by any measures to create a more open European market by dismantling the protectionist procurement policies long practised by most European PTTs. Hence, while manufacturers may be in a position to make future products to the same standards, there is no guarantee that they will be entitled to sell them Europe-wide.

The EEC Commission has so far refrained from attacking PTT monopoly practices head-on, apparently because it fears that it lacks the necessary legal and political power and would suffer a bruising rout.

By contrast, the US Government has been stepping up the pressure for change. It has already sought in bilateral talks to get West Germany to open up its market and is expected to make an issue of European policies in the forthcoming GATT world trade negotiations. Whether the US offensive will achieve its objectives—or, on the contrary, cause European countries to take up the cudgels in defence of the status quo—remains to be seen.

Guy de Jonquieres

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Shake-up in US Equipment Market

Manufacturers struggle to adjust

THE SHOCKWAVES of deregulation, the transformation of AT & T's local telephone operations into independent regional companies, continue to shake the \$22bn US telecommunications equipment industry creating confusion and volatility for both buyers and sellers.

As the telephone industry struggles to adjust to the new competitive environment, new technology—in the form of an integrated services digital network (ISDN) that promises to transform the largely analog telephone system into a computerised digital network which carries data and video signals along with voice—heralds even more dramatic changes ahead.

In the meantime, suppliers of telephone equipment to businesses face the problems of a broad slowdown in US capital spending that is holding up purchases of office-type phone exchanges and new office networks.

This has been a sluggish year for many portions of the US industry with supply exceeding demand in most market segments. Shipments of private branch exchanges, the switching systems installed in corporate offices, are projected to grow by a lacklustre 6 per cent per year until 1990, according to Dataquest. Factors inhibiting growth will include reduced replacement opportunities as older analog systems are displaced and the anticipated growth of alternative Centrex services, offered by local telephone companies.

Estimated 1986 revenues of \$3.3bn will grow at an annual rate of 7.5 per cent to \$4.4bn by the end of the decade, the market researchers project.

Telecom, its closest rival, sold 18.8 per cent of the 4.1m lines shipped.

Sales of key telephone systems, which typically handle one to 40-phone lines, are in a slump.

"1985 was to the key system industry what the 1984 depression was to the US economy," says Dataquest's Will C. Felling, vice president and director of the telecommunications group.

He projects a growth rate of only 1.5 per cent in line shipments over the next four years, and a slight drop in revenues of 0.2 per cent per year, bringing 1990 sales down to \$2.1bn. He sees high-end key telephone systems being supplanted by PBX and Centrex systems, and prices being brought down by a flood of Korean imports at the low-end of the market.

Increased residential and small business use will fuel growth of smaller key telephone systems, with sales rising from about \$550m this year to \$602m in 1990, he projects.

Rather than purchase their own switching systems, more businesses will turn to the telephone company for enhanced Centrex services over the next five years, Dataquest predicts. The installed base of Centrex systems is expected to grow from a current 6.3m lines to 7.8m by the end of the decade.

to price such services aggressively. Centrex services for businesses with 100 phone lines or less may grow by an average 20 per cent over the next four years.

Together with Centrex, some phone companies are planning other value-added services which could give the equipment market a boost. Pacific Bell, for example, is testing a data and telephone communications service which it calls "Victoria" that could become the model for similar services throughout the US.

Using a "multiplexer" that splits a single phone line into seven channels—two for voice and five for data—Pac Bell aims to offer residential and business customers access to a range of data-retrieval services, including home banking, community bulletin boards, shopping and entertainment guides, news retrieval, energy management and electronic mail.

Pac Bell plans to undertake a major trial of the system next year with about 5,000 paying customers. Before the system enters commercial use, however, several regulatory hurdles must be overcome. Already IBM and Western Union have raised objections to Pac Bell's entry into the enhanced data communications field. And the phone company is awaiting a ruling from the Federal Communications Commission.

Although the role of the phone companies may still be uncertain, the merger of computer and telephone technology is already under way. Telephone companies throughout the world are working toward the implementation of an integrated services data network. While the US is behind Japan and much of Europe, progress has come much faster than many in the telecommunica-

tions industry had expected, in part due to the enthusiasm of equipment manufacturers, who see ISDN as a major new opportunity.

ISDN services are now expected to be widely available in the US by the mid-1990s, with pockets of ISDN services emerging as early as 1988 in major metropolitan areas.

Several field trials of ISDN are scheduled to begin next year at regional phone companies and the world's major equipment manufacturers are vying for contracts to supply prototype equipment.

Implementation of ISDN will require a major update of telephone equipment, both at telephone companies and customers' offices. Analogue telephone switching equipment will become obsolete and even existing digital switches will need to be adapted to fit ISDN standards.

The major impact of ISDN on the telecommunications-equipment business will come in the customer-premises equipment sector, according to Victor Krueger, vice president of Dataquest, a US market research company. ISDN will provide US vendors of terminals, telephones, PBXs and other office equipment with an incremental sales increase of \$1bn over the period 1988-1990, solely as a result of ISDN, he calculates.

For central office equipment manufacturers, the booty should be worth about \$600m over the same period, while transmission equipment manufacturers can look forward to a \$220m opportunity.

Although competition is tough and getting tougher, the US telecommunications equipment market will remain the largest in the world growing to an estimated \$35bn by 1989.

Louise Kehoe

The UK Equipment Market

Suppliers show variety on offer

A VISITOR to Britain need look no further than its high streets to see that the UK telecommunications equipment market, worth more than £1.7bn last year, has been liberalised.

Since liberalisation, there has been a flood of equipment trying to get into the British market. So far the approval authorities have given the go-ahead to about 50 new makes of private exchange, about 40 smaller private exchanges known as key systems, about 400 types of telephones and about 30 ranges of cordless phones.

Before liberalisation, by contrast, about 10 manufacturers supplied a limited range of private exchanges to the UK market.

However, the picture in the UK equipment market is more complex than the apparent one of a thousand products blooming, thanks to the delights of unrestrained competition.

There are three reasons why the UK market is still not characterised by anything like perfect competition.

First, British Telecom moved rapidly in the run-up to liberalisation to consolidate and even strengthen its position as the dominant supplier of private exchanges.

BT used its dominance in the supply of exchanges below 100 lines to launch a modernisation programme, converting the older electro-mechanical exchanges. So successful was this drive that the market for private exchanges below 100 lines peaked in 1983-84. Prices have fallen and there may now be an over-supply in the market, leading some observers to predict a shake-out.

Moreover, BT moved aggressively into the supply of exchanges with more than 100 lines, a market from which it was previously absent. In the year to March, BT captured more than 60 per cent of this market which has now also peaked, according to MZA, a specialist marketing consultancy.

The second factor slowing up liberalisation is deficiencies in the procedures for approving private exchanges. In particular, the British Approvals Board for Telecommunications has been severely hampered by a lack of enough telecom engineers.

Public switching equipment sales in the UK

Table with 6 columns: Year (1981-82 to 1985-86), GEC sales, Plessey sales, Market share of GEC, Plessey, Combined. Includes sub-tables for System X and System X turnover.

*Including development sales sub-contracted to GEC in 1983-84 to 1985-86. Source: Monopolies and Mergers Commission report.

As one industry insider puts it: "Liberalisation has to be fuelled by supplies of equipment. Virtually everyone believes that BART has failed in getting enough equipment through."

The Office of Telecommunications, the industry's regulatory body, says a company might get a new private exchange approved in nine months if it made a perfect application and met all the industry standards immediately—but those are two big ifs.

The third barrier to full competition is the simple fact that some areas of activity remain to be liberalised. From today, for example, private contractors and do-it-yourself householders are allowed to compete with BT in fitting the sockets needed to install extension phones in private homes.

However, when the decision was announced in September, it was immediately attacked by the Telecommunications Industry Association, a trade association representing the independent sector, for not going far enough.

It demanded liberalisation of the master socket too, where BT still retains a monopoly, because it said BT was being too slow in converting old master sockets which are unsuitable for modern telecommunications equipment.

The association predicted there would be a loss of telephone sales of £80m over three years if BT kept control of the master socket.

Nevertheless, it remains true that customers can choose from many more products now than they could at the start of the 1980s. More controversial is the question of what impact this greater competition has had on the UK equipment industry.

The optimists say that, deprived of their captive home market, the big UK manufacturers, such as Plessey, General Electric Company, and STC, have had to become more efficient. They have modernised their products, embarked on joint ventures with non-UK equipment manufacturers and put more effort into exports.

The pessimists, however, argue that Britain has surrendered part of its market to imports, in return for very little from other countries, most of whose markets, particularly in Europe, remain protected. The share of the UK market supplied by imports rose from about 8 per cent in 1981 to about

18 per cent last year, though import penetration remains lower than that for UK manufacturing in general.

There have been areas where the response of the UK manufacturers appears to have been disappointing. One example is cellular radio. Despite the rapid growth of the service in Britain, most of the equipment has been made by foreign companies, though some of this is now being manufactured under licence in Britain.

Ericsson of Sweden and Motorola of the US have supplied the switches. Most of the phones come from companies such as Motorola, NEC and Panasonic of Japan, NovAtel of Canada and Mobira of Finland; the UK cellular phone market was worth almost £50m last year on one estimate.

Government officials involved with the policy on cellular radio say that the price the UK had to pay for getting its service established so quickly was to lose out on the equipment side.

British Telecom has tended to stay with its traditional manufacturers for ordinary telephones, though the share of BT orders going to individual companies has changed. However, most of the new phones on the market which are being supplied by routes other than through BT, such as in the high street multiples, are imported, mainly from the Far East. Some observers believe this is inevitable because competition has driven down prices on what is essentially a low tech product.

A problem still to be resolved is the future of System X, the only digital public switch developed in the UK, which has so far failed to win large orders abroad. BT's programme for installing System X has at last gone into top gear this year: one new exchange is being commissioned each working day on average.

However, observers have long considered it sensible for GEC and Plessey, Britain's two biggest makers of telecommunications equipment, to rationalise and even merge their overlapping interests in System X. The Monopolies and Mergers Commission supported this idea when it blocked GEC's hostile bid for Plessey in August.

Since GEC's bid failed, GEC and Plessey have begun to discuss how they might eliminate duplication of effort on System X in areas like purchasing, marketing and data processing.

David Thomas

THE most important event for British Telecom in the next 18 months will be a political, not a commercial, one: the outcome of the British general election. A Conservative victory would probably mean the sale of the Government's remaining 49 per cent stake in the company and further liberalisation of the UK telecommunications market.

Labour, however, has promised to take BT back under public ownership and control. It has also talked of bringing Mercury, the sole competitor to BT's main network, under BT's wing.

More uncertain is what a hung Parliament, with no single party in overall control, would mean for BT.

Sir George Jefferson, BT chairman, launched a stinging attack on Labour's public ownership proposals at BT's annual meeting in this year, warning against BT becoming "a political football like, for instance, British Steel."

Perhaps more surprisingly, there is no great enthusiasm at senior levels in BT for an end to competition and a return of its monopoly.

"If we have fair and reasonable competition, we expect less regulation," explains Mr Iain Vallance, BT's chief executive.

"Competition should stimulate the market as a whole. It should stimulate us. And it should stimulate the industry that supplies us," he adds.

More competition in the UK telecommunications market has given BT greater leverage over three crucial areas: BT's defeat of the industrial action by the National Communications Union, the largest in BT, taken in 1983 over denationalisation and liberalisation is widely regarded as a turning point in the industrial relations history of the industry.

Since then, BT has taken the initiative in industrial relations, driving ahead with plans for more efficient working practices. The presence of a competitor eager to grab BT's business if it were disrupted by industrial action is a potent threat to hold over the unions.

"Before 1981, the unions held undue sway and almost the power of veto over what BT management did. With competition that power is weakened," Mr Vallance argues.

BT management, competition has also helped BT to overhaul its own management, installing a more commercial approach to its business. Financial and marketing executives have been brought in from outside the company.

Mr Vallance says he is satisfied that the top layer, the most senior 400 executives, now have the right commercial approach, though he acknowledges that



Iain Vallance, 43-year-old chief executive of British Telecom— "competition should stimulate the market and us."

British Telecom Future hangs on politics

further down the line attitudes are still "patchy."

Suppliers. Competition, forcing BT to cut costs, has prompted it to take a harder line with its suppliers, which in the past tended to be a small and rather cosy club of UK manufacturers.

BT has introduced a second public digital switch, Thorn-Ericsson's System Y, to compete with the System X switch of Plessey and the General Electric Company. BT's programme of installing System X, once 15 months behind target, has now speeded up: one exchange is commissioned each working day on average.

While benefiting from competition, BT has at the same time reacted aggressively to it. It has grabbed a dominant market share in the supply of some equipment, such as the largest private exchanges, which it had previously ignored.

For some years, BT has also been "rebalancing" its tariffs, by raising local charges and rentals, but cutting long distance rates, where BT was most vulnerable to competition from Mercury.

Its latest package of price changes this year, which ranged from an 18.9 per cent rise on local calls at peak times to a 17 per cent cut in some long-distance charges, forced Mercury to announce an immediate 12 per cent cut in its charges for calls over 35 miles.

It is crucial for BT to protect

its traditional core business, that of the public telephone service, since UK calls and rentals last year accounted for 55 per cent of its £3.4bn turnover.

However, BT recognises that defence of its core is not enough.

"Although it's good to have a growing utility business, as competition increases and costs come down margins will decline," says Mr Vallance.

So BT has been working on other areas where it can either expand or move into afresh. One obvious target is value added services for businesses, where BT has launched a number of initiatives. For example, in September it announced a business information service, Hotline, aimed at financial analysts, marketing specialists, and small businesses.

Other areas of opportunity for BT include its international operations and joint ventures with other telecom companies, including equipment makers.

Mr Vallance says BT is pursuing a "twin-tracked strategy to the

increasing liberalisation of the flow of telecommunications traffic between countries: defensive, to hold onto the business that BT has already; and offensive, to exploit new opportunities which are opening up.

However, BT has been relatively cautious in arranging joint ventures or making acquisitions, particularly on the manufacturing side.

"You can see some of the problems which AT&T have run into by doing some things too fast," Mr Vallance says.

BT's main initiatives so far have been acquiring Dialcom, the US electronic mail company, taking a 51 per cent stake in Mitel, the loss-making Canadian private exchange maker; and entering a joint venture with Du Pont of the US to make advanced opto-electronic components.

BT explains these either in terms of their strong fit with aspects of BT's existing business (Dialcom) or in terms of needing to keep closely in touch with key technologies and products on the equipment side (Mitel and Du Pont). The Mitel and Du Pont initiatives have the added attraction of increasing BT's presence in and knowledge of the key US market.

Mr Vallance says that several more pieces may need to be added before the jigsaw is complete, but these are likely to be joint ventures or start-ups as acquisitions.

"The acquisition route is one you have to use prudently, because generally acquisitions fail to meet expectations," he argues.

BT's path since privatisation has not been entirely trouble-free. There are still plenty of grumbles from customers about quality of service. In October, Professor Bryan Carsberg, director general of the Office of Telecommunications, the industry's regulatory body, warned that the formula governing BT's prices might have to be strengthened if its public commitment to quality of service did not improve.

The telecom unions have also recently published a report, hotly disputed by BT, which argues that privatisation has meant dearer phone calls for the domestic subscriber; new charges for a variety of engineering services; an abandonment of BT's buy British policy; cuts in BT's research and development; lower standards of service; and worse conditions for BT workers.

However, among business customers, who have been the target of the competition between BT and Mercury, there is a feeling that BT's performance has certainly improved, even if there is some way to go before its act is fully together.

David Thomas

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Mercury Communications

UK's second national network

HISTORIANS LOOKING back at the development of UK telecommunications are certain to pick out May 1986 as a key date. That was when Mercury, which was previously offering private leased circuits to companies, launched its public telephone service.

Future assessments of the UK's innovative attempt to liberalise its telecommunications market will turn in large measure on whether Mercury, the only carrier licensed to provide an alternative to British Telecom's main network, succeeds in establishing itself as a viable alternative to BT.

Mr Gordon Owen, Mercury's managing director, has set an end-of-the-decade target of winning 5 per cent of the UK telecommunications market, which is likely to be over £10bn by then. He envisages a 10 per cent share within 10 years, which could turn Mercury into the dominant company within its

parent, Cable and Wireless, the UK international telecommunications group.

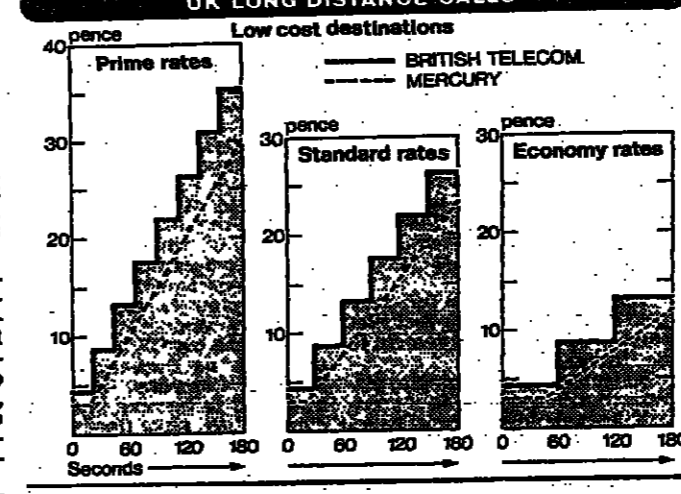
After May, Mercury's initial concentration was on winning long-distance traffic from companies making big use of the phone network. It says many of its customers were in the City, where there was an explosive growth in demand for communications in the run-up to Big Bang. Mercury has installed a fibre optic grid in ducts under the City owned by London Hydraulic Power, a company formed in 1871, which it bought in 1985.

Mercury believes it has three main advantages over BT:

- **Price:** When Mercury launched its services in May, it claimed its long distance calls were up to 24 per cent cheaper than BT's. Mr Owen says that this price advantage is crucial in persuading customers to switch some of their traffic to Mercury in the first place, though after that other factors,



Mercury is starting to challenge BT for some of its most profitable business. Above, a BT rigger at work on the 300ft London Telecom Tower.



Gordon Owen, chief executive of Mercury Communications: price advantage is crucial in winning customers.

By the May launch, it had completed its basic fibre optic network, linking London, Birmingham, Leeds, Manchester and Bristol. It is extending the network north from Manchester to Glasgow, across to Edinburgh, and back south via Newcastle to Leeds. Links to Aberdeen, Cardiff and the south coast of England are also planned.

Mercury is at present offering two main types of services: its 2100 service, where customers are already connected to Mercury's network; and its 2200 service, where customers are indirectly linked to Mercury through interconnection with BT.

The 2100 service has higher installation charges, but cheaper tariffs, than the 2200 service. It is therefore more suitable for larger customers—those with more than 30 lines in the City of London. In outside the City of London, its fibre optic network, Mercury reckons its 2100 service is suitable for businesses with as few as 10 outside lines.

Mercury has completed a number of steps so far in its evolution towards a full alternative network: from May, it was offering long-distance traffic on

its directly connected 2100 service; from August, it offered local calls to customers outside London and to set up call boxes to compete with BT's.

It is still too early to reach a judgement on how well Mercury is doing. A few companies have transferred custom to Mercury in a big way. One such is Boots, which says that more than £200,000 a year in long-distance business will now go to Mercury, with less than £50,000 going to BT.

However, most of Mercury's customers are probably trying out its services in a fairly limited way, before deciding whether to give it more of their business.

BT thinks that Mercury's immediate tariff cuts in response to its latest price changes might indicate that business is not flowing Mercury's way as fast as it had hoped.

"Our tariff changes were interrogative. We set them at a level that if Mercury had been doing extremely well, it would not have had to respond," says Mr Iain Wallace, BT's chief executive.

However, Mercury says that its main problem at the moment is managing the speed of its growth. Its workforce, now standing at over 1,200, has increased by a half since March. Indeed, it has missed some installation dates, which it blames on its suppliers.

In the medium term, Mercury like BT will have to face major decisions in the political arena, whichever party wins the next election.

Sir Eric Sharp, chairman of Cable and Wireless, has attacked Labour's proposal to integrate Mercury into BT, thus restoring BT's monopoly, as "a doctrinaire political gesture" which could cost a Labour administration more than £1bn.

If Labour wins the next election, Mercury's best defence against such a move will be a large number of customers who would feel annoyed at losing its service; hence the key importance to Mercury of spreading its customer base outside large companies, which were its natural initial target.

However, by November 1989 Mercury will have to face a major political decision even if the Conservatives return to power or there is a hung Parliament. For that is the date when the Government's commitment not to licence any other public telecommunications operator runs out.

David Thomas

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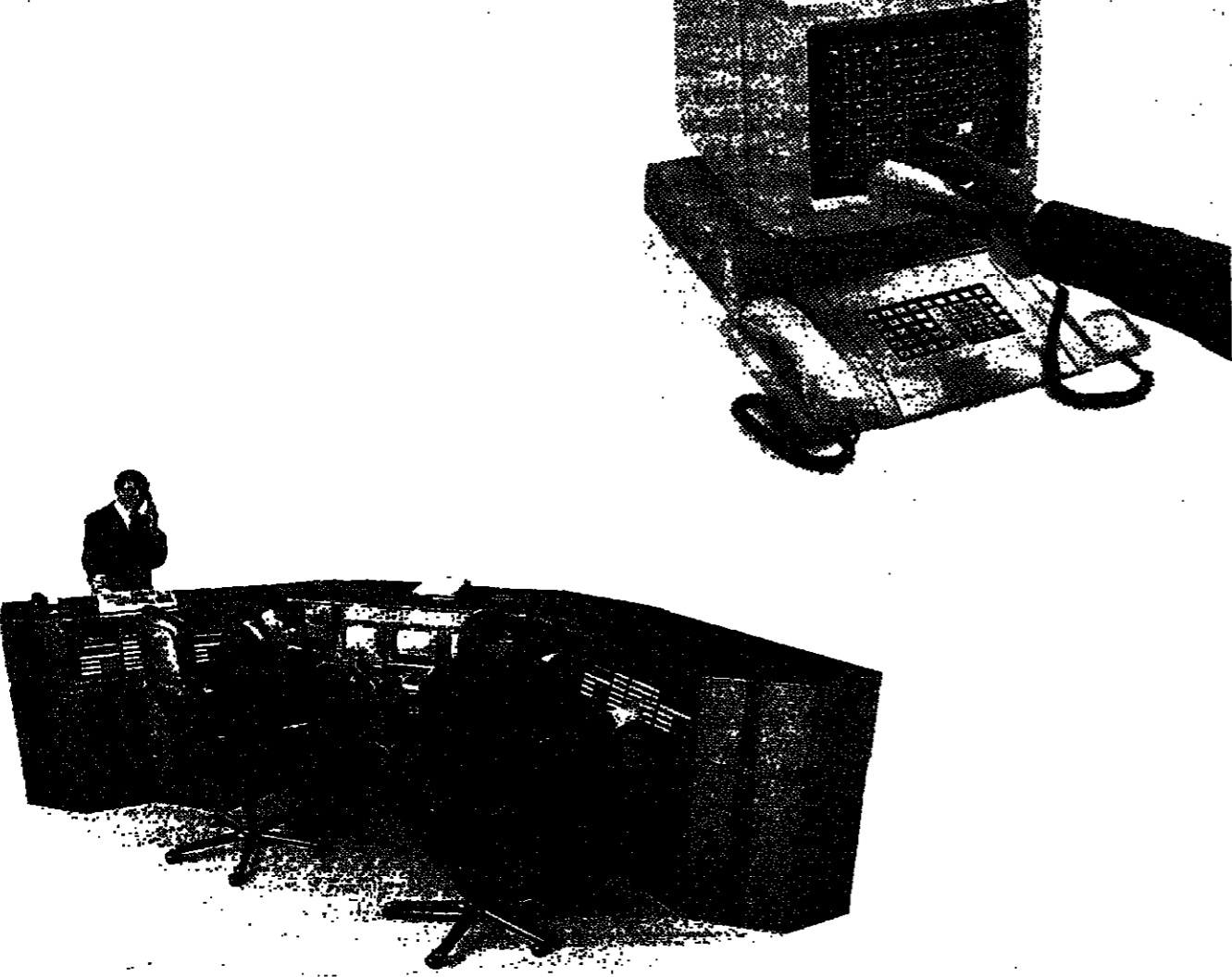
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Dutch Joint Ventures Eyeing the French market, too

FRENCH DALLIANCE over access to its charismatically guarded telecommunications market has managed to rile a host of countries in North America and Western Europe, not the least of which is the Netherlands. But American Telephone & Telegraph-Philips (APT), the US-Dutch telephony joint venture, remains confident of getting the plum 10 per cent slice of the French market after nearly two years of Parisian coquetting.

Selling public telephone-switching systems in France, however, could be somewhat of a pyrrhic victory for the joint venture between AT & T, the US telecommunications giant, and Philips, the Dutch electronics leader. The huge new investments required would mean higher debt and probably would delay APT's move into the black until 1989 or 1990, Mr Karel Hubee, executive vice-president of APT, explained during a recent interview.

APT is hoping to buy the public-switching business of Compagnie Generale de Constructions Telephoniques (CGCT) but in exchange has had to promise to set up big operations in France to become the second supplier to the French PTT.

The US-Dutch joint venture, based in Hilversum, the Netherlands, was established in the middle of 1985 and has yet to post a profit although none was expected before 1987. Higher-than-expected start-up costs, however, will push back the break-even point to at least 1988 and later if the French deal goes through.

Mr Hubee predicts that losses for 1986 will narrow from 1985's F1 92m and that sales will surpass the F1 651m of last year. The company has failed to meet its goal of F1 1bn a year in turnover which it had hoped to reach in 1985.

Nevertheless AT & T and Philips are willing to help cover the "hundreds of millions" of French francs necessary to operate in France, Mr Hubee said, because that is part of the price for survival in the cut-throat competition of the telecommunications industry.

"If you want to be one of the five or six players left in the year 2000, you must participate in the battle," he explained in his brightly lit office overlooking Hilversum, the broad-

casting capital of the Netherlands.

Mr Hubee admitted that the American-Dutch venture was offering a hefty premium for the loss-making CGCT, perhaps twice its value, in exchange for a lucrative market worth between FFR 700m and FFR 800m a year. APT has agreed to pay FFR 117m for the public telephone-exchange operations of CGCT, which lost a total of FFR 250m last year and is in the process of being privatised.

To try to clinch the deal APT has agreed to produce the SESS/FRX digital telephone-exchange system in France, which will require as much money as CGCT itself. On top of that, AT & T has promised to buy \$20m worth of microwave equipment from a joint venture consisting of APT and Compagnie Generale D'Electricite (CGE) and to be based in France.

French officials already indicated a contract with APT nearly a year ago but since have balked, figuring they might be able to get a better deal elsewhere. Rival European telecommunications companies were allowed to make offers and a handful did—some invited and others voluntarily. Siemens of West Germany, L. M. Ericsson of Sweden, Northern Telecom of Canada, Alcatel of Italy and Plessey of the UK are believed to have made bids.

But the plot thickened when Bonn began pressuring Paris to sell CGCT's public-switch activities to Siemens because CGE was getting Standard Elektrik Lorenz (SEL) of West Germany as part of a new consortium being set up by CGE and International Telephone-Telegraph (ITT) of the US. SEL is one of ITT's subsidiaries worldwide that are being brought into the consortium with CGE, which is owned by the French Government.

Washington then joined the fray, arguing that France should choose APT on commercial grounds and not Siemens on political grounds. Mr Rudolph Lubbers, the Dutch Prime Minister, seconded the argument.

With the commercial and political stakes rising almost daily, what will APT do if the French deal falls through?

"We will clearly be disappointed because it will be a lot of money and effort lost," Mr

Hubee admits. "But we have two legs to stand on—transmission and switching. For switching it will be a tremendous drawback but we will get other activities going. We'll get a foot in switching in other countries."

On home territory, more orders can be expected in coming years from the Dutch PTT, which is modernising the entire infrastructure at a cost of F1 7bn over 20 years. APT already has snagged an initial contract worth F1 1bn for five digital switching systems and lines but must wait in future with Ericsson and ITT, which also have been promised business by the Dutch PTT.

Britain, West Germany and Italy look less than promising at the moment although Belgium is expected to place new orders for telephone exchanges next year. One of the brightest spots is likely to be Asia, where Indonesia is planning to install digital telephone switches in the near future, and China is involved in a major modernisation of its entire telecommunications network.

Philips is involved not only in public telephone but also in the private telecommunications market through its telecommunications and data systems division. The Dutch company's premier product is its "sophomation" line of integrated office-automation systems that link computers, telephones and other peripheral equipment to allow the exchange of text, data, voice and image information.

The Sopho-S system can link as few as 20 connections, as many as 20,000 in a network that includes a digital private automated business exchange (PABX). In October a "Voice Mail Server" was introduced that serves as a sophisticated telephone-answering machine relaying messages only through use of a password for security and sorting messages by priority.

Sopho-Net is a wide-area network that allows a global exchange of data and text, for example, in banks' international foreign-exchange dealing operations. In the US, Philips has linked up with Harris Corporation to market Sopho-Net there and in Japan. The Dutch company has joined with Kyocera.

In coming years Philips plans to weave into the sophistication technology optical memory equipment such as compact disc-read only memory, laser vision and digital optical recording.

The Dutch market for value-added networks (VANs) such as sophomation will win a big boost in two years when the PTT telecommunications authority is spun off into a private company and competition is opened to private industry. All the shares of the "NV PTT" will remain in the state's hands but its monopoly on peripheral equipment will be broken and only the monopoly on the infrastructure will remain.

When the "NV PTT" begins in January 1989 one of the most promising markets for the communications industry is bound to be that for PABXs. Extremely high prices for PABXs in the Netherlands, due to only two suppliers, have kept the market lagging far behind most of Western Europe. Pent-up demand could burst forth if new competition lowers prices.

Since the Dutch centre-right government finally approved the PTT spinoff early this year, however, progress has been slow in deciding exactly where the dividing line will be between the monopoly and free market. At one point it was thought that all analogue peripheral equipment would be considered infrastructure and therefore under the NV PTT's monopoly while all digital equipment would be opened to competition. A clear decision has yet to emerge.

But decisions are urgently needed over the NV PTT's functions so that it and soon-to-be competitors can plan new tariff structures. For example, Amsterdam's planned teleport, the high-technology telecommunications and data processing centre, has been thrown into turmoil for lack of information on tariffs from the PTT.

Information-technology companies that will be providing the hardware and software for so-called "smart buildings" and video conferencing, among other facilities, must know what they will be charged by the PTT.

If the PTT fails to set tariffs for the planned teleport soon some critics speculate that the huge PTT spin project would be jeopardised.

Laura Raun

France
Battle of S and C
interest
Big n

France

Battle on with US and German interests

THE FRENCH telecommunications industry is at the centre of an international battle whose outcome is likely to have major repercussions for world telecommunications as a whole.

Moreover, this battle which essentially involves the opening of 16 per cent of the French public telephone switch market to an international manufacturer to compete against France's Alcatel group controlled by the nationalised Compagnie Générale d'Électricité (CGE) is only one of the dominant aspects of the dramatic times the world of French telecommunications is now living.

The battle involves the future of Compagnie Générale de Constructions Téléphoniques (CGCT), France's oldest but troubled telecommunications equipment manufacturer formerly owned by ITT of the US before its nationalisation by the Socialists in 1982.

The new conservative government is now privatising CGCT and reviewing bids for control of the group by international companies such as AT&T, Siemens and Ericsson.

These companies, backed by their respective governments—the US and German administrations have been lobbying the Paris authorities fiercely—are all seeking to gain control of the troubled French group because it will give them a 16 per cent foothold on the French public telephone exchange market and make them the second supplier to the Direction Générale des Télécommunications (DGT), the telecommunications authority.

Two years ago it would have seemed inconceivable to think that the French administration would open up this key domestic market to a major international foreign group. But the restructuring of the French telecommunications industry under the former Socialist administration opened the way for the entry of a foreign supplier.

The merger of the telecommunications assets of CGE and Thomson, the other major nationalised electronics group, removed one of the DGT's two French suppliers since Thomson was not only a second source of CGE's Alcatel subsidiary but also provided the licence for the equipment built by CGCT.

The stakes in the CGCT contest are extremely high for all parties concerned. Moreover, the battle for this 16 per cent share of the domestic public telecommunications market coincides and indeed is intrinsically linked with another major telecommunications deal involving CGE and ITT.

The French group, which hopes to be privatised in the second half of next year, is currently completing the setting up of a joint venture with ITT which will create the second largest telecommunications grouping in the world after AT&T.

The new joint venture will be controlled by CGE and will group together ITT's telecommunications assets with those

of CGE's Alcatel subsidiary. Moreover, CGE and ITT recently decided to extend the deal to include the two group's respective cable and optical fibre operations.

For CGE, the venture is seen as a way of keeping the French group in the top world telecommunications league and ensuring its future in this business. But the deal has also provoked a reaction from the American side which has backed Siemens bid for CGCT arguing this would reciprocate CGE's major foothold in West Germany through ITT's German subsidiary SEL.

In turn, this has provoked a reaction from the American side which has been lobbying in favour of AT&T taking over CGCT for the past two years. The Americans have suggested that they could make life difficult or even impossible for the US market depending on the outcome of the CGCT affair.

A final decision on CGCT is now expected to be taken by the French Government around Christmas, although many observers doubt whether this time will be the last. They fear the decision will again be delayed into the new year.

The problem for the French administration is a major one. It is not so much the technical or economic aspects of the CGCT deal which worry the Government, but the political repercussions.

"It's a difficult dilemma for the Government. Whatever their decision it is bound to disappoint and anger someone and leave a sour taste behind," remarked the head of a major French industrial group recently.

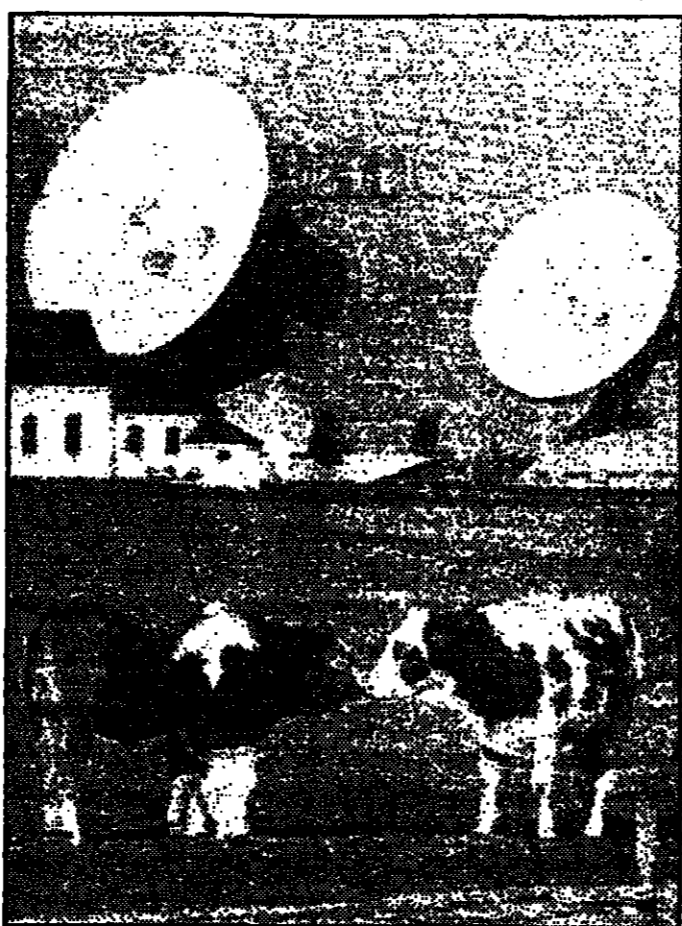
If the attention of the French telecommunications industry has been focused on the two big "affairs," as the French call them, concerning CGCT and the CGE-ITT joint venture, it has also been increasingly turning to a series of other evolutions taking place in this key French sector.

If industrial restructuring, globalisation of markets, the gradual breakdown of barriers even in the highly protected telecommunications environment has led to the current manoeuvres around CGCT and CGE-ITT, the arrival of the new right-wing government has also accelerated the drive towards gradual deregulation in the French telecommunications sector.

Indeed, both Mr Alain Madelin, the Industry Minister, and Mr Gerard Longuet, the post and telecommunications minister, are among the most ardent disciples of the new wave of French liberalism and free market policies.

Mr Longuet has already announced plans to open up to private competition the market for advanced value added telecommunications services in France ranging from videoteleconferencing to videophones and private business communications networks.

Already, important associations between major inter-



In West Germany, telecommunication dish aerials at a satellite tracking station overlook a church and cattle at a quiet Bavarian village. The tracking station was involved in monitoring signals from Spacelab 0-1, the first satellite mission paid for and managed by West Germany, for relay to the control centre at Oberpfaffenhofen. The German telecommunications industry has recently become the centre of much political argument. Equipment producers, too, are under pressure with foreign competitors pressing for a way into the German market.

national groups have been made to gain a share of this new deregulated market in France. IBM and the Paribas banking group have linked-up to offer such new services while Olivetti and the French Suez financial group have also teamed together for the same purpose.

However, the government, despite its free market high rhetoric is adopting a cautious and gradual approach to deregulation. Although the movement towards deregulation in the longer term appears inevitable, the opening up of the domestic public switch market through CGCT to a foreign supplier is an eloquent sign of how things are changing and moving in France.

The Government is none the less concerned to set up a structure to regulate competition in the French telecommunications sector before eventually opening up the existing state monopoly to outside carriers as the US and the UK have done.

This is likely to take some time and may not occur before the presidential elections due in 1988.

But the Government has now set in place a new regulatory body to act as an independent watchdog agency for broadcasting telecommunications modelled somewhat on the US Federal Communications Commission (FCC). This new Commission Nationale des Communications et Libertes (CNCL) has just chosen its 13 representatives or "sages."

Its task will be complex and delicate, for together with the telephone deregulation the Chirac Government has launched an ambitious programme to accelerate broadcasting deregulation in France including the privatisation of France's oldest and largest state television network, TF-1.

David Marsh

West Germany

Rivalry with US over CGCT

THE LATE 20th century has caught up with West Germany's once-comfortable telecommunications industry with a vengeance. New technologies have opened up new opportunities and now Bonn squares up to Washington in a dispute over who should buy something in Paris.

Some of the country's grand old industrial giants, friends for decades, start to claw at each other. An imperial monopoly, the Bundespost, begins to disintegrate. Even the customer—probably more ignored in West Germany than in other developed capitalist economies—knows that "something is up."

The race between Siemens and American Telephone & Telegraph (AT&T) to take over French telephone company CGCT has thrust Bonn at an industry in which it has never taken much interest. Most West German governments have simply delegated communication, and the politics that surround it, to the Bundespost and whoever happens to be Posts Minister.

But with the US Government now actively pressing AT&T's case in France, and Bonn doing the same for Siemens, the new politicisation of the industry is scaling heights undreamed. Mr Christian Schwarz-Schilling, the present and rather colourful Posts Minister, has become just one of many players in Bonn as the Economics Ministry, the Foreign Ministry and even Chancellor Helmut Kohl is drawn into CGCT's future.

Mr Schwarz-Schilling won his

job because he was, really, the only member of Mr Kohl's party to show much interest in the new media when he was in opposition. Today, the band of politicians familiar with broad bands, coaxial cables and digital public telephone switching is growing rapidly.

The fight to buy CGCT will contribute to this but it has been Mr Schwarz-Schilling, not always by virtue of his success, who has drawn attention to the Bundespost and its monopoly over almost every conceivable form of electronic communication.

There was the time, about two years ago, when he proudly announced the arrival on the market of West Germany's first cordless telephones—late, he regretted, because he and his Ministry had been determined to get the technology absolutely right.

Within days, conversations on these telephones were being picked up on transistor radios all over the country and the Minister had to do some rapid explaining.

But his most eye-catching ploy has been to spend roughly DM 3bn a year wiring up the country for cable television. No-one, or hardly anyone, watches cable here not least because Mr Schwarz-Schilling is constantly having to revise cable connection charges upwards to pay for the cable programme.

What he has done, though, is to provide a network, or the beginnings of one, which if not used by new television com-

panies is beginning to excite great activity among producers of telecommunications equipment.

At the same time, a commission has been hard at work on plans to part the Bundespost from its overall monopoly and is likely to suggest next year that Mr Schwarz-Schilling's jurisdiction stops at the entrance to buildings that do not belong to him—meaning that all telephones, computers, modems, teletext receivers, facsimile machines could be bought and installed without reference to the Bundespost.

It may not get quite that far—Germany does not have a good record in deregulation—but the effect on equipment producers has been dramatic.

US producers, aware that now is the time to push Bonn on deregulation, have been doing so through their Government for nearly two years and have won at least some promises from the Bundespost on deregulation.

In Germany itself the producers are in a state of gentle turmoil. AEG now belongs to Daimler-Benz, which is likely to embed itself after its financial troubles earlier in the decade. Bosch, alarmed at one of its biggest electronic car component customers, Daimler, buying an electronics company (AEG) is trying to develop its telecommunication side and tried to buy, so it is rumoured, ITT's West German subsidiary, SEL.

But SEL is being sold to CGE of France. Both Bosch and the computer producer Nixdorf

have been approached to join in the ITT/CGE venture but have refused, saying the offered stake was too small.

Nixdorf though has begun to rattle Siemens with its own telecommunication products, notably FAX systems already designed to convert to full digital switching as it is introduced by the Bundespost over the next 10 years.

Siemens, struggling to find growth markets but having trouble winning switching equipment orders in the US and being frustrated in France, is now promising to start making electronic fuel injection systems in competition with Bosch.

This merry-go-round is a long way from slowing down. On the corporate side, acquisitions and mergers are likely but the noise already generated has stirred the country's strict cartel authorities and it is going to be difficult for German producers to survive and grow merely by buying market shares. That means they will have to innovate faster than the foreign competition that is pressing for a way into the German market, or innovate slowly and be protected.

The latter is becoming an increasingly dubious option. Pressure in the US Congress to retaliate against telecoms protectionism in Europe is growing and many major West German telecommunication companies admit that they stand little chance of surviving as independent entities unless they have access to the American market.

Peter Bruce

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Italy

Big merger planned

WHILE THE headline-grabbing developments in Europe's changing telecommunications industry have been elsewhere, this time the Italians have been quietly laying the foundation for a major rationalisation of their own fragmented industry. The plan calls for an unusual merger of Italtel, the state-owned telecommunications equipment maker, and Telettra, the smaller telecommunications company which is owned by the Fiat group.

The merger in many ways makes sense: it would put Italtel, which is owned by the IRI-Stet state holding group, under the same roof as Telettra. Italtel's turnover last year was L1,228bn, while Telettra's was L497bn. The two companies, Italy's only home-grown telecommunications equipment makers, could well complement each other's activities.

Italtel draws much of its turnover from switching, while Telettra is one of Europe's leading producers of digital transmission equipment. Italtel derives more than half of its turnover from SIP, the state telephone company, and exports amount to only 7 per cent of total revenues.

Telettra, on the other hand, is better structured for competition in the European market, and derives almost half of its turnover from exports.

Both Italtel and Telettra are profitable, the former having emerged recently from years of losses under the leadership of Mrs Maria Bellisario, who cut Italtel's staff by 10,000 between 1981 and last year. Last year Italtel made a L42.1bn profit, while Telettra earned L20bn.

The merger would be designed to co-ordinate market-



Testing an Italtel digital exchange

ing, research and development, and production between the two companies and would also present an attempt to create a unit large enough to advance Italian interests on the competitive global telecommunications market.

For most of this year a feasibility study has been underway to evaluate the prospects for a full or partial merger. A company called Telit has been supervising the study. Telit is 48 per cent owned by IRI-Stet, 48 per cent by Fiat and 4 per cent by Mediobanca. This could also become the shareholding structure of the merged group.

The feasibility study, backed by valuations of the two companies being prepared by

accountants Arthur Andersen and Price Waterhouse, should be completed by the end of this month.

It is already becoming clear, however, that at the centre of the negotiations, aside from industrial and commercial considerations, will be the issue of how much Fiat might be expected to contribute to the venture. This is because the evaluation are expected to show a substantial difference between the net value of Italtel and Telettra.

Italtel and Telettra already collaborate in one area, the building of digital exchanges. In 1982 a three-way accord was reached among Italtel, America's GTE and Telettra to develop new products. The result has been the Linea UT switchboard exchange (developed by Italtel) and the GTE-5 (developed by GTE).

Linea UT sales represent around one-sixth of Italtel group turnover and at the end of this past summer over 220 Linea UT switches (representing 450,000 lines) were in operation in the Italian telephone network.

The GTE-Italtel-Telettra 1982 agreement could be affected, however, by the recent agreement reached between West Germany's Siemens group and GTE, under which Siemens is to take 80 per cent of a new international venture.

Even if Italy does succeed in overcoming the hurdles (both financial and political) on the way to a Telettra-Italtel merger, analysts say the Italian industry will still be comparatively small on the world stage. And while most countries are busy deregulating their systems, Italy is further behind, as it is still consolidating its fragmented sector.

Alan Friedman

too

David

International collaboration

Joint ventures in a global market



• EUROPE'S first Scitex telecommunication link for digital transmission of full-colour picture data has gone into operation at a London photographic processing centre for printers and publishers. The system (above) at F. E. Burman Links Scitex electronic page composition equipment with other equipment users in the US and Australia. Burman is already using the system to promote a colour news picture service to UK publishers. The Scitex telecommunication package offers a wide range of lines and speeds, including land and satellite

links for transmitting news pictures in colour. Burman's transmissions so far have all used standard telephone line links-up. The company is able to give editors a preview selection of colour news pictures in 'rough' low-resolution form before sending a final, high-resolution transmission. • Below: In Japan a sales girl displays a range of nine new-style telephone handsets from the Nippon Telegraph and Telephone (NTT) which has around a third of Japan's 11m telecommunication equipment market.

COLLABORATION HAS rarely been more popular in industry than it is today. Cross-frontier joint ventures, minority stakes in companies with strong local market positions, co-operative research and development projects, combined investment in heavy capital programmes, government-sponsored sectoral schemes—the list is long, growing, and particularly extensive in the telecommunications industry. Yet over the years, the record of collaborative enterprises has not been particularly inspiring. Industry is littered with examples of projects that have come apart under the pressure of events. Why then are the telecommunication companies today finding themselves pushed so inexorably into the embrace of partners with whom, in an ideal world, they would probably prefer not to be involved? Part of the reason is the sudden but irreversible globalisation of world markets. In the public switch market, for instance, most of the large telecommunication equipment manufacturers who are now rushing into alliances enjoyed the security of relatively friendly home markets until the development of the present range of digital equipment. These markets, they are now finding, are heavily eroded to support the cost of continuously enhancing the efficiency of the present range of products, and certainly will not bear alone the expenditure on the next generation of telephone exchanges.

Market pressures of this kind lie behind several of the collaborative attempts of the recent past. • AT & T, the US long distance and exchange equipment manufacturer, has linked up with Philips of Holland to try and break into the European market. The joint venture is now trying to take over CGCT in France. • CGCT, which has 16 per cent of the French market, is also being pursued by other telecommunication companies, notably Siemens of West Germany, which is trying at the same time to break into AT & T's home market in the US. Siemens has had to abandon its plans to link up with the switch manufacturing subsidiary of GTE, the large independent US telephone operating company, but many analysts expect talks to resume at some point. • CGE, the French electrical group, is planning to take over the switch-making subsidiary of ITT, the US-based conglomerate, in a deal which will allow ITT to maintain a 37 per cent stake in the business. This will give CGE a potential stake in several European markets, particularly West Germany through ITT's subsidiary there. • In the UK, the attempted takeover of Plessey by GEC would have allowed the integration of their telecommunication subsidiaries, both of which are working on the System X exchange; they are now talking of some form of co-operation. Another area of collaboration is arising out of the convergence of telecommunications and computer technology. Two industries which grew up independently are now coming together because users no longer want to treat data processed on computers as isolated goblets of information. The computer industry is shifting towards the concept of networking—tying together a variety of departmental machines from personal computers to printers and files, in a system in which they talk to each other. Similarly, the telephone companies are beginning to look carefully at computer groups. They, too, see the possibilities of networking, and are anxious to secure the business that flows to their basic communications operations if they can offer complete packages to a customer. Among the main companies moving into this type of venture have been AT&T, which, through an agreement with Olivetti of Italy now has access to a range of personal computers. A recent decision by the US regulatory authorities has allowed AT&T to drop artificial barriers it had been forced to construct between its telephone and computer activities. It will therefore be freer to move into the networking business with the full strength of the corporation's resources behind it. Another example is IBM, the computer giant, which has links with two telecommunication companies—MCI, the long-distance carrier, and Rolm, the manufacturer of private exchanges. Third, companies are forming alliances as a swift way of filling in gaps in their own products and services. British Telecom, for example took over Mitel in Canada to give it an entree to the customer premises equipment market. Similarly, Cable and Wireless of the UK, historically an operator with lines linked to British overseas interests, has now

signed a series of deals to create its "global highway" concept of a fibre optic cable network spanning the world from western Europe to Japan. A third kind of collaboration, increasingly popular in recent years, is growing up in research and development. Here, the idea is to develop technological competence at a reduced price while retaining the independence and individual identity of the companies concerned. This form of co-operation has arisen out of the recognition that the cost of remaining at the forefront of technology is rising beyond the point where many companies can stay in contention. At the corporate level, this has given rise to projects such as the common, cross-frontier design work on telephone exchange equipment launched jointly by Plessey (UK), Siemens (West Germany) CGE (France), and Italtel (Italy). But much more impact has been made in this area from Government-backed initiatives such as the Europe-wide Esprit and RACE programmes. Esprit, for example, which is aimed at

supporting a competitive European information technology industry, is working on office systems and communications; RACE (R and D for Advanced Communications Technologies for Europe), is examining the technological base for initiatives on the EEC-wide broadband communications network. The challenge facing all of these co-operative projects is to show that they can deliver useful solutions to problems which may require some extremely difficult commercial and political decisions. Bringing companies together usually means that there are possibilities of capacity reduction, but it is not easy to cut jobs when the decision raises questions of national industrial competence. Similarly, alliances aimed at filling out product lines tend to be a prey to arguments between the partners over financial control—and research and development joint ventures raise tricky problems of integrating corporate cultures. The new wave of collaboration may have some rough riding ahead of it.

Terry Dodsworth



Call of the Orient

China's vast potential

CHINA'S major computer and telecommunications exhibition—Expo Comm 86—held in Beijing last month, attracted many of the world's foremost telecommunications suppliers, eager to secure a foothold in what is potentially the world's largest telecommunications market. China's telephone network is poorly developed, with an average penetration of only five telephones per 1,000 people of its 1.1bn-plus population. But, like so much else in China, this situation is changing. China is vigorously pursuing a long-term objective of becoming an advanced industrial nation by the turn of the century. Since 1978, when Deng Xiaoping effectively gained control of the party machine, a series of major reforms have been transforming the country. Subscribing to the view that improved telecommunications are often the key to economic growth, particular attention is being paid to upgrading the telephone network. The telecommunications infrastructure has recently been confirmed as one of the top priorities in China's Seventh Five Year Plan (1986-90) and US\$30bn are to be invested in modernising it. Indeed, in a recent statement Yang Taifeng, the Minister of Posts and Telecommunications, no doubt with a touch of the Departmental competitiveness not unknown among Western Ministers seeking a slice of a central budget, declared that telecommunications growth should be faster than that of the economy as a whole. A generous assessment by most international observers is that China's telecommunications network is some 20 years behind most other industrialised nations, technologically speaking. Its network uses manual switching equipment and automatic equipment that is over 50 years old. But this is rapidly changing. China's first sophisticated telecommunications national system was completed in 1976 and comprised an 1,800-channel coaxial cable connecting Beijing and Hangzhou via Shanghai. A national telephone centre was inaugurated in Beijing and, by 1980, with the installation of Intelstat ground stations, direct links to 47 countries were established. Although China manufactures some telecommunications equipment such as crossbar exchanges, it is at present beyond her capabilities to pro-

duce much of today's equipment, notably digital exchanges. To meet these deficiencies, China has embarked on an "import drive" of some magnitude. The new "open door" policies have led to something approaching a goldrush environment in which a procession of the world's telecommunications companies, encouraged by soft loans and export credit from their governments, have descended on China's major cities. To date, Japan with the aid of soft loan financing has achieved the greatest success. Other countries, however, have had notable successes; they include France, with the sale of digital exchanges and transmission equipment from Alcatel-Thomson; Sweden with its digital exchanges from Ericsson and the United States in collaboration with Holland supplying fibre optic transmission equipment through AT&T and Philips. The UK has had limited success, through GEC's sales of push-button telephones. STC's fibre optic transmission equipment and BICC's contracts to supply cable. Cable and Wireless are implementing a joint venture with China in setting up the Shekda Telephone Company in Shenzhen. However, the recent trade and economic development seminar between China and Britain, the largest ever mounted between the two countries, is likely to boost the UK's figures significantly. The two-day event which took place during the Queen's visit to China has led to various contracts and agreements being signed. These include Plessey's collaborative deal with the Post and Telecommunications factory in Shanghai to establish a centre for service, maintenance and technical development of a range of digital equipment. Cable and Wireless' contract to develop the telecommunications system in the Yangtze Delta regions and STC's five-year technology transfer agreement to manufacture telecommunications equipment, as well as to set up an advanced production facility in a deal which could be worth between £20m and £25m. Strong emphasis in the modernisation programme is being given to the main business areas and cities such as Beijing, Shanghai, Guangzhou, the special economic zones of Xiamen and Shenzhen and the 14 "open" coastal cities where telecommunica-

tions assumes international importance. The rural areas are likely to have to soldier on with antiquated equipment for some time to come. The co-ordination of China's network into a coherent national infrastructure is likely to be hampered by the bureaucratic nature of its telecommunications industry. At present the country is divided into seven regions controlled by the Ministry of Posts and Telecommunications (MPT). While the MPT is responsible for national policy and standards, each region has a large measure of autonomy. This has been known to lead to fragmentation and unevenness in the development of a national system. While China is eager to import equipment in order to modernise rapidly she is anxious to set up her own telecommunications industry and is therefore encouraging joint ventures and technology transfers. One example is the Sino-Belgium joint venture which in 1983 set up the Shanghai Bell Telephone Equipment Company to manufacture digital switching equipment. The deal, with Bell Telephone of Belgium, an ITT subsidiary, involved the local manufacture of System 12 exchanges and it is expected that output will reach 300,000 lines a year by 1989. Other deals of this kind include Alcatel of France's contract to supply 500,000 telephone lines together with the transfer of manufacturing ability and telecommunications research facilities, and, of course, Cable and Wireless' joint venture referred to earlier. China has also recently emerged as a leading contender in the space industry alongside Arianespace and the Japanese for the launch of commercial satellites. Following the American space shuttle disaster and the US Government's decision to reserve shuttle launches for scientific and military satellites the Chinese have had discussions with the UK, the US, Italy, Pakistan, Brazil, Australia, Argentina and Canada to explore the possibilities of China launching their satellites. Using their own expendable Long March rockets, China claims it can launch satellites 15 per cent cheaper than her competitors.

Jon Moggridge

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Electronic Publishing

More data services come on stream

INFORMATION SERVICES body who wants to use their information is that they should buy back issues. The chances are that the user will not know where to find the information unless he is using a librarian with superhuman skills. Some services such as Global Analysis Systems (GAS), which provides information on economic, political and strategic events in 100 countries, have geared themselves up from the start to publish information exclusively in electronic form. GAS itself takes in information feeds from outside services including securities trading information from Reuters, Bridge Data and Telegurs, and adds value by producing detailed economic statistics and making editorial comment of an economic or political nature. It pays for these services and, in turn, collects money from third parties publishing its information. Such customers include BT's Hotline and Textline, a similar service established some years ago by Finsbury Data Services. Textline provides text abstract retrieval facilities on a wider variety of business publications worldwide including national newspapers, business journals, press releases, news tapes, corporate financial reports, newsletters and brokers' surveys. In addition to searching free text, Textline employs an extensive range of indexing terms that further help to identify vital areas of business information that cannot be retrieved using free text retrieval alone. For example, stories containing proprietary product names of pharmaceuticals but not necessarily the term "pharmaceuticals" would be indexed under pharmacologists. Another competitor in this market, McCarthy On-Line provides full text retrieval, rather than abstracts, albeit from a smaller number of sources. "We go for quality, not numbers," says Sarah Pebody of McCarthy On-Line. "We see no point in monitoring a lot of provincial newspapers. We use the most popular sources of business information." One advantage of this service is that a standard IBM Personal Computer or compatible machine with modem can be used instead of the more esoteric terminals used by Hotline and Textline. Datasolve, a Thorn EMI information technology company, currently markets two major online information products: World Reporter and World Exporter. Originally developed in a joint venture with Datasolve and the BBC, World Reporter is the UK's largest full-text international news and current affairs service, offering a 250m word database of authoritative sources such as the Financial Times, the Guardian, the Washington Post, Asahi News Service, the Economist, Associated Press, the BBC Summary of World Broadcasts and the BBC External Services News. World Exporter is a business intelligence service to help organisations trading overseas identify new opportunities and assess associated risk and financial implications. As well as business media sources, it includes databases from The British Overseas Trade Board, Plans and Projects Monitor, Euromoney and Sales Leads International. IPC, the world's largest publishing company, has a number of electronic publishing services under the umbrella of Reed Telepublishing. ABC Travel Guides, a leading publisher of travel related information, is part of Reed Telepublishing, formed in January 1984 to spearhead Reed International's move into electronic publishing. The company is a major publisher of printed material, from British Rail guides to airline timetables. In 1984, ABC launched its Electronic range of products for the travel trade with a computer-based version of its best selling World Airways Guide. This is delivered to the subscriber by Prestel, or by the private Travicom computer network. The majority of travel agents already use one or other of these networks to access airline and tour operator information. The ABC product allows them to look up air schedules and fares on the same terminal. A year ago, the company installed a large IBM 3083 mainframe computer to support this system was developed specifically for ABC by another Reed company, International Computerprint Corporation (ICC) of Fort Washington in the US. ICC has wide experience in computer-based publishing and has recently been awarded a contract to computerise the Oxford English Dictionary. Lexis, a comprehensive legal library and word-search system, is owned by Mead Data Central of Dayton, Ohio in the US, and marketed in the UK by Butterworth Telepublishing. Earlier this year, the company acquired Eurolex, the main UK rival to Lexis, from the International Thomson Organisation. Eurolex was in financial trouble and faced closure. In the event, the Eurolex database was absorbed into Lexis. Lexis was more expensive than Eurolex, and although some customers moved to Lexis, Butterworth Telepublishing would not be drawn on numbers. The decision to acquire Eurolex had to be made against a history of adverse trading conditions for computer-based legal research companies in a market that was growing very slowly. Although new electronic publishing services are continually coming on stream, it is far too early for a shake-out, which may result in a loss of confidence among subscribers. Furthermore it may reinforce the view that only large companies can afford the benefits of such services, that only large companies can set up these services, and that these services have to be expensive in order to be viable. Boris Sedacca



Mercury's network operations centre in Birmingham, where an advanced computer-controlled telemetry system is used to monitor and control its telecommunications network.

New Public Services

Sales set to rise fast

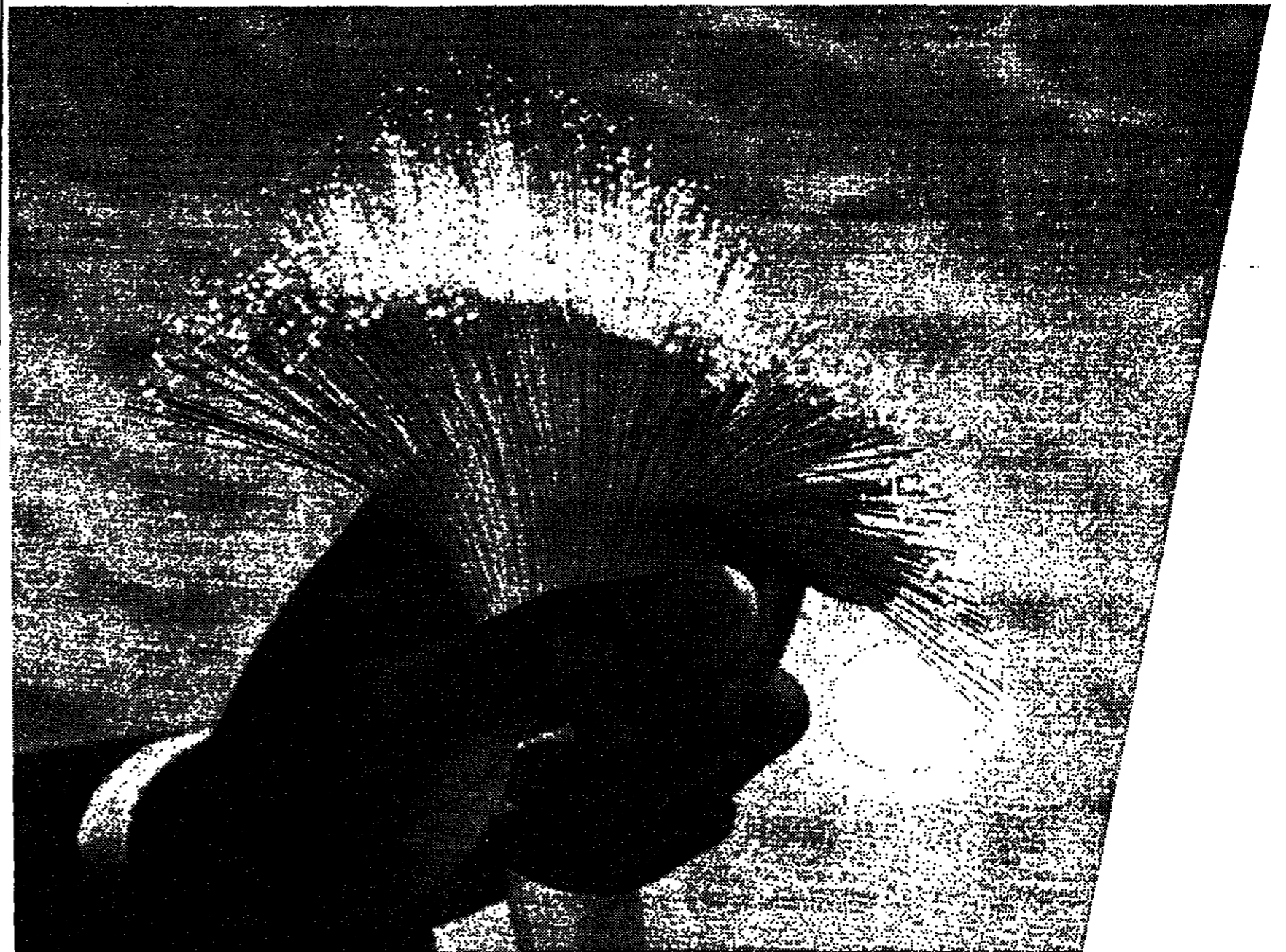
AGONYLINE IS no joke. It is now one of thousands of new public services available by telephone—part of an exploding new industry called value-added network services (VANS). If a service of any description, including an agency aunt, is added to an ordinary telephone line, it becomes a VANS. The big sellers, however, are electronic mail, financial information and network management. Success for cash earnings in VANS markets are spectacular. Sales in western Europe are worth \$200m a year and will rise to \$5bn year by 1992, suggests Logica. The UK will lead with 30 per cent of that figure because recent deregulation means fewer obstacles to independent suppliers. By using a VANS system, a company saves on the capital and staff it would need to operate the same service in-house. Small companies can start VANS for low capital outlay by piggybacking them on established VANS systems. British Telecom carried other VANS on Telecom Gold and the data-only network, PSS. Most business users, however, still see the telephone line as solely a means of talking to someone far away. So, in October, the UK's Department of Trade and Industry (DTI) started a £1.25m two-year awareness programme, called Vanguard. Such programmes have had mixed results in the past. But this time the sector has been deregulated first. Since August, controls only apply to VANS worth over £1m a year, or whose owners have a turnover more than £50m a year. Above those levels there are half a dozen rules covering publication of tariffs and conformance to technical standards. Some companies have foreseen the cash potential of VANS in a deregulated environment. In 1984, IBM and British Telecom tried to set up Jove, a super-VANS which could carry other people's services and data, but managed by IBM and BT. The then-Secretary of State for Trade and Industry deemed that the joint venture would squash competition, and stopped it. Both companies have since started up separate network services. BT has managed international private networks for several years—it operates TWA's European data network. The company entered UK network management in October, valuing the management sector at £300m a year by 1990s. The first customer is British Aerospace. IBM moved even faster. Its UK national network already has several customers. For example, it links automated teller machines (ATMs) from different building societies. A card-carrying customer of say, the Leeds Permanent can use Alliance and Leicester ATMs. The ATM reads the card and sends the cash request around the Alliance network. The VANS provides the control and bridge to the Leeds network and into the head office computers. After checking that there is enough money in the account, the authorisation travels back through the networks to the Alliance ATM and cash is dispensed. The transaction takes about 20 seconds. The building societies can proceed with the task of marketing, knowing that network management is someone else's problem. Other big VANS suppliers include Federal and Intel, subsidiaries of Midland Bank and British Leyland, respectively. Now the BBC and ITV have entered the fray. They will broadcast data services and say that for over 100 special receivers the service can compete with telephone distribution. Each of these carrier networks take specialised products to customers' offices. There are online databases for farmers and for journalists and for equity dealers. Just before the August deregulation, 782 VANS licences had been issued to 190 organisations. In France there are 2,500 VANS going out to over 1.5m Minitel screens. They are privately operated, but the Minitel network, called Teletel, is state-owned through the telecommunications body, the DGT. Teletel is similar to Prestel which has under 70,000 users. Danny Green

Customer Services

Centrex forces changes

PRIVATE TELEPHONE switchboards in Britain will start disappearing next year. It has been happening in the US for over a decade and the cause is centrex. With centrex much of what happens on an ordinary office switchboard is duplicated in part of the main public switch reserved for one customer. The results can be seen on a telephone outlay, floor space, telephone management staff and electricity costs. One of the telephone companies in Washington DC, for example, now has more than 42 per cent of its business lines on centrex. Ten years ago, companies generally changed their private telephone switchboards (PABXs) every 15 years. Now it is more like every eight years. Between 1982-85, most companies exchanged their private electronic switchboards for a new generation controlled by computers. Now there is little or no growth in sales of these items. The problem facing the suppliers is how to add enough value to PABXs to make companies scrap what they have now. And they face the new challenge of centrex. UK manufacturers, such as Plessey and GEC, have been caught napping by centrex. Mercury is installing centrex on kit bought from Northern Telecom of Canada, while British Telecom is buying from Philips. "System X will have centrex-type facilities maybe next year," says Mr John Hooley, Plessey market planning executive. Plessey has more than 90 per cent of UK sales of large PABXs and, in common with other manufacturers, will lose sales if customers prefer the sound of centrex. "It should appeal to multi-site organisations such as retail chains where centrex can give the company a single telephone number with the shops as extensions," Mr Barry Hannam, sales and marketing director of Telephone Rentals. He thinks that centrex will improve awareness of other products, such as programmable phones and new PABX features. These extras are vital in a market selling otherwise similar products. Voice mail can now be bought with the PABX. It allows users to leave verbal messages for other extensions, like a centralised answering machine. British Telecom runs a public version called Voicebank, but customers pay for using it. The future for voice mail is uncertain, however. The US experience is not promising as it has to compete with the ordinary answering machine. Similar services are about to become available as simple add-on to office computers including the IBM PC. Plessey has sold only a "modest number" of the voice mail optional extra on top end PABXs. Telephone Rentals experience is similar—"voice mail sales are flat," says Mr Hannam. Some extras do help. Pocket pagers can now be operated from PABXs. Users may dial someone's extension and, if they are not there, their pager beeps. Automatic call distribution, where incoming calls go to free phones in sequence and managers keep track of how long a caller waits before the call is answered, is selling to mail order and insurance quotation companies. Automatic call-forwarding has to be run on a PABX or from mobile phones because it is usually not available on the public phone network. But the PABX-makers are struggling against the tide. Although the latest PABXs use digital technology, that does not make much difference while the telephone network itself uses pre-war parts. Both Mercury and BT are putting digital lines into only a small proportion of UK premises and most market forecasts suggest that PABX sales around the world will not begin to take off until 1988. Around that time, widespread trials of the integrated services digital network (ISDN) will start—the current British Telecom pilot project is called IDA and has a handful of subscribers. ISDN will carry voice, data and images on one line from the office, and most developed countries plan to build ISDN as a publicly accessible service. It is already possible to simulate ISDN on leased lines with some PABXs. But the ISDN standards have not yet been finalised, and buyers risk ending-up using standards which no one else has bought. In the meantime, the deregulation of telecommunications and uncertainty about the ISDN standards which will eventually be adopted is pushing customers away from in-house services to bureaux. During the 1970s "electronic mail" meant a company-wide service, operated in-house. Now there are 50,000 mailboxes allocated in Telecom Gold alone, and there are at least three serious rivals chasing in its wake. Danny Green

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Spain

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Accession to the EEC has given Spain an important psychological boost. The size of the challenge is only

now beginning to be recognised however by the manufacturing industry

The taboos start to lift

By David White

THE SPANISH wanted almost unanimously to join the EEC—and they are glad and relieved to have made it. But most of them have forgotten why. Ordinary Spaniards, who up to accession were more aware of the obstacles to entry than the realities of the Community, would be hard put to point to any real changes since January other than value-added tax.

But those feeling the most direct effects, the manufacturers, are starting to realise the size of the challenge taken on.

The impact of entry for Spain is mainly psychological, but is by no means a negligible one. Achieving membership was the political equivalent of a doctor's certificate—a sign of acceptance and recognition of Spain as a "normal" country. It is no longer a nation with a chip on its shoulder.

Membership has also brought a sense of completion for the transition to democracy. It is remarkable to think that four or five years ago there were still in the air and newspapers were bravely publishing editorials in defence of the constitution. Spain today is at last getting over its taboos; television is launching its first full series on the civil war of 30 years ago. The occasional reappearance of fascist Spain, such as the annual

demonstration a few days ago in memory of General Franco, have little significance—a curiosity like the persistence of unusual eating hours.

Spain has now come fully into the mainstream of the western community. Less than three months after becoming an EEC member it voted to stay in Nato (albeit with some reluctance and at the cost of a tough argument with the US over the future of American bases). It would probably have become part of the IMF group of 10 if there were not already 11 in the group. It will almost certainly join the European Monetary System once inflation is down to an average EEC level, possibly in 1988.

Problems with neighbouring countries have been smoothed. Fearful of fresh tension with Paris after the Chirac Government's arrival in power, the Spanish have been taken aback by how well relations with France have evolved.

French authorities are co-operating more than ever before in the crackdown on Basque terrorism. A fishing dispute in the Bay of Biscay was resolved when France conceded rights to the Spanish. In ex-

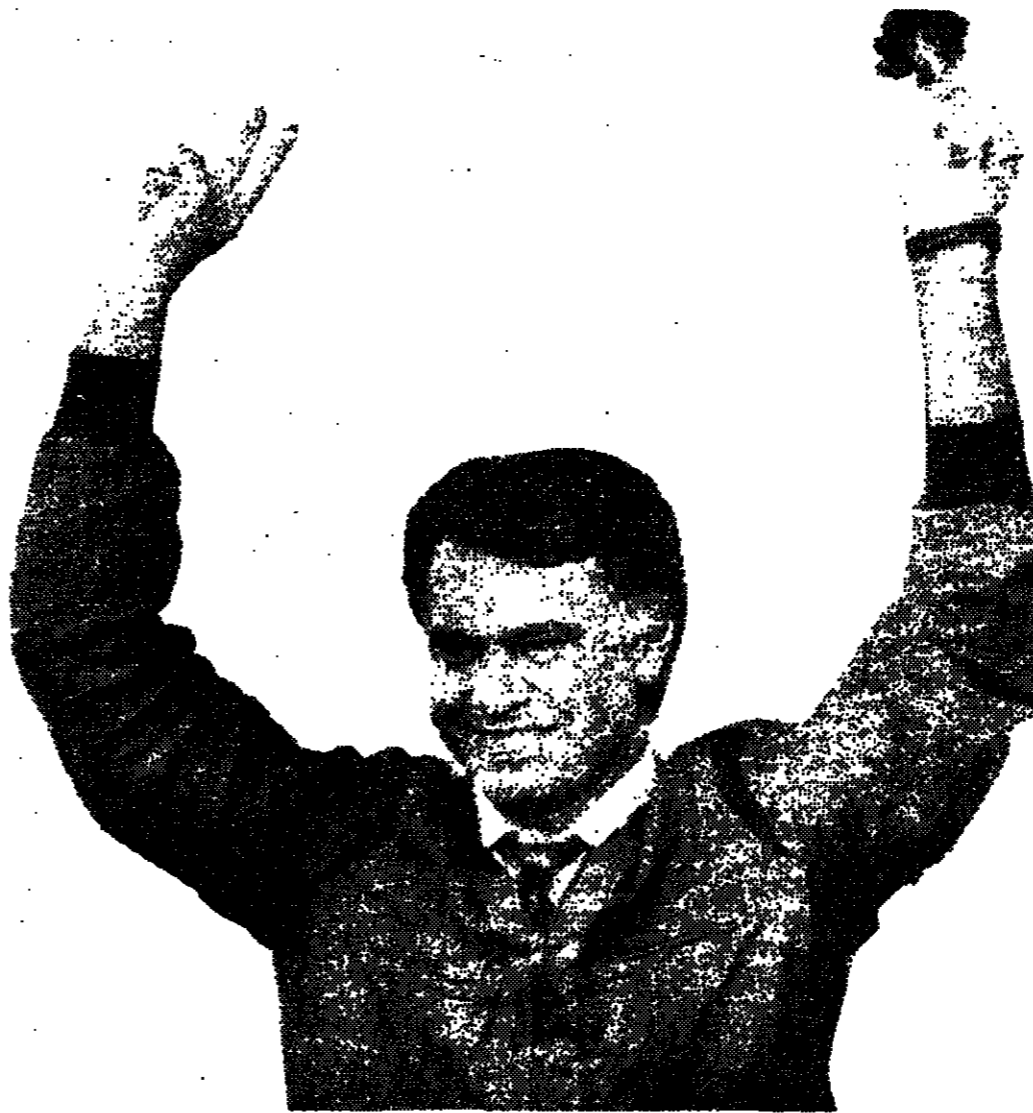
change, Spain has not taken up cudgels over the EEC's policy towards non-member Mediterranean states.

King Juan Carlos's visit to the UK in April was a resounding success, even though talks on Gibraltar, initiated two years ago, are bogged down.

Commercially, Spain has turned even more towards Europe. In the first nine months of this year its share of exports going to the rest of the Community rose to 60 per cent from 53 per cent a year earlier, and the EEC's slice of Spain's import market rose to 48 per cent from 38 per cent. West Germany has supplanted the US as Spain's biggest supplier.

Though not dramatic, changes are beginning to filter through. Items that before had rarity value, from Weetabix breakfast cereal to Alfa Romeo cars, have become commonly available. EEC standards will progressively be applied in areas like hygiene in abattoirs and environmental protection. Helped by EEC funds, Spain is preparing to tackle phenomena such as African swine fever, which prevents it from selling pork products in Europe and is embarrassingly suggestive of the Third World.

Old fears which led Spain to put up barriers—being overru-



A jubilant Felipe Gonzalez, re-elected as Prime Minister, is firmly in the seat of power

or drained of resources—have been surmounted. The Government has lifted most of the remaining restrictions on foreign investment and, more recently, opened the door for Spaniards to invest in shares abroad. This is a big sign of confidence.

The moderate Socialist Government of Mr Felipe Gonzalez, re-elected in June, sits firmly in the seat of power, undeterred by seigniorial parties toppled in both of Spain's immediate neighbours, France and Portugal, and able to hold the vote of the left while pursuing policies (including some privatisation) that have little to do with Socialist dogma.

A blot on this exterior of almost smug normality is the

Basque problem, not only because of continuing terrorism, but also because of the failure of the inhabitants of the Basque country to find common ground on the kind of political model they want. Another is unemployment, affecting more than 21 per cent of the "active" population.

Even if a third of the 3m unemployed are working in undeclared jobs, as the Government reckons, the figure is still well above average EEC levels. With more people, especially women, coming onto the jobs market, the figure is not likely to come down, even though the authorities expect the number in employment to continue increasing, as it has since last year.

The outlook is for growth above EEC averages in the next few years although there are some doubts about the Government, reaching its 3 per cent target for this year. Inflation has caused bouts of anxiety but is expected to end the year only slightly above target at 9 per cent, including the effects of VAT. Prospects appear good for a renewed labour consensus with the Socialist UGT trade union, based on declining inflation.

In this sense, entry has been smoother than anticipated. But for much of manufacturing industry, joining the EEC has been like passing a medical for military service: it did not try to get off because of flat feet or

rheumatic complaints, but is now going to have to get up at the crack of dawn and go on forced marches.

Spain has shown itself highly competitive in services—with a big rise in tourist revenue it can expect to consolidate its current account surplus this year. But it is much less so in industrial goods. The divergence in inflation trends with the rest of the EEC, a stronger peseta and a gap in productivity often reaching 25 per cent have all taken their toll. Although investment is recovering, industry is now feeling the lack of it in recent years.

With no more tax benefits for exporters, and with tariff defences starting to come down, Spanish manufacturers have been losing ground at home and abroad. Exports in peseta terms are 6 per cent down so far this year. Imports have also dropped because of slashed oil prices, but by less, and non-energy imports have risen in volume by about 20 per cent.

Spain's non-energy trade balance has swung into the red. In a bad, drought-hit year for cereal crops, the farm sector has not offset the negative effects of EEC membership on the industrial balance.

Since the first tariff cuts in March, Spain's one-time surplus against the EEC has been wiped out. In the first nine months its sales to the rest of the Community rose by only 6 per cent against a 25 per cent rise in imports. In October its trade with France dropped into deficit. The Government has already had to invoke safeguard clauses, notably for steel products.

The Socialists' \$7bn streamlining plan for problem industries including steel, shipbuilding, textiles and electrical "white" goods, has been largely completed. But as the four-year "reconversion" programme comes to an end, the need is emerging for more state-aided surgery. Once again this is forecast for some engineering sectors, and (most painfully since it will hit Asturias, traditional heartland of the Left) for the uneconomical state-owned coal mines.

Abroad, Spain is handicapped by weak and inexperienced marketing. While in some areas it has demonstrated a capability for high-quality workmanship (and the Government has started campaigning to improve quality standards) it has been generally bad at selling itself. It was not the greatest inspiration, for instance, when a company was set up in the US to market Spanish

defence equipment to call it Defex.

This year, however, has produced at least one outstanding success for Spanish salesmanship, with the clinching of the 1992 Summer Olympics for Barcelona against strong competition. The Games and the universal exhibition planned in Seville the same year for the 500th anniversary of Columbus's first discoveries will mobilise investments of several billion dollars.

The events coincide with the last year of Spain's industrial transition period with the EEC, and industries such as telecommunications hope to use them as leverage to make a "qualitative leap" into the European front rank.

The bulk of a \$15bn investment plan for Spain's railways is due to be completed by then. Madrid, once one of Europe's most poorly connected capitals, will be accessible by a new dual-carriageway road network. And, five centuries after Spain's conquest over Moorish occupation, the south will at last be physically linked to Europe.

It may have to do with the new horizons opened since joining the EEC, or with the end of an industrial crisis that came later and cut deeper than in the rest of Europe. But a noticeable change has come about in the way Spain has started to think big.

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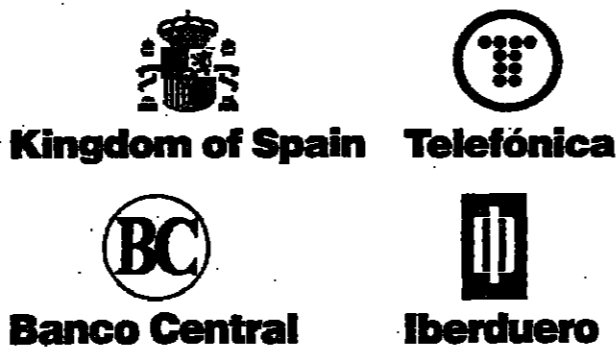
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Gonzalez is firmly in the saddle



Miguel Boyer, ex-finance minister (left), and Alfonso Guerra, deputy prime minister: a verbal skirmish between them.

FELIPE GONZALEZ is a much more relaxed man than he was nine months ago. Then, in his campaign for a referendum vote in favour of staying in the Nato alliance...

representatives of the conservative business establishment for greater signs of realism. The Socialists have appeared if anything more moderate.

ideological discussions. Mr Gonzalez has himself become worried about the party's "dangerous trend towards becoming an oligarchy..."

The referendum (won in the end more easily than he expected, by a margin of 53 per cent for, 40 per cent against), confirmed in office for a second four-year term in the general election in June, Mr Gonzalez is now firmly settled in power.

Nobody at the beginning of Spain's transition to democracy after the end of the Franco era in 1975 could have foreseen the part of its hold on urban middle-class voters. Its leaders are worried about next June's municipal elections, when socialist mayors in several big towns including Madrid face a tough battle.

The source of the Socialist Party's strength—its broad appeal, breaking the mould of left-right confrontation—is also its problem in deciding who it is aiming to please. It came to power in unique circumstances.

With the Right reluctant to budge towards the Centre, the Centre in disarray, and the Communists in the throes of their own spectacle of division and collapse (which they managed to repair a little this year), the Socialists were left with a vacuum to fill.

As Mr Jordi Sole Tura, communist law dean in Barcelona, and one of the architects of the 1978 constitution, put it: "The PSOE (Socialist Party) has found itself in the singular situation of having to be simultaneously a party of the moderate right, of the Centre and of the Left, because all the other parties that should occupy these positions have been through, or are going through, or will go through, grave internal crises."

A young socialist team, many still in their thirties, come to office in 1982, without the ideological baggage of the old anti-clerical, anti-militarist, pro-Republican party, but also without much experience. In their second term, praised by

Both have long been close to Mr Gonzalez. The one poured scorn on "frustrated politicians who are no longer in politics," the other against "pseudo-leftist demagoguery."

This squabble has, however, served to eclipse the real left of the Socialist Party, to which Mr Guerra does not belong, and which has become increasingly demoralised. This faction, Izquierda Socialista, is meeting over the next few days to consider whether to continue as a movement or throw in the towel.

The party has become a victim of its own success. With local bosses setting up strong bases in the autonomous regions, power rivalries have taken the place of

Mr Fraga's position also got him into trouble with other European conservative parties, who exacerbated growing tensions among his chief disciples.

The right's problem is that the 64-year-old Mr Fraga is its best vote-pulling asset but at the same time its biggest liability in attempting to win more support. There is no obvious substitute who could hope to keep Mr Fraga's votes and at the same time win over the large sector of centre-right opinion that would never consider voting for Mr Fraga.

Regarded as a liberaliser when he served under the Franco regime, Mr Fraga is described by one conservative regional politician as "biologically dictatorial."

In June, a three-party coalition led by Mr Fraga kept all but one of its previous 106 seats. As a result of the alliance, the Christian Democrat PDP party—"moss on the trunk of Mr Fraga," according to the same politician quoted earlier—got 21 of its members into Congress. Expressing dissatisfaction over the result, it then pulled them

out of the opposition coalition. Meanwhile, rumblings within Alianza Popular itself over the high-handed running of the party grew louder. In September, Mr Fraga sacked Mr Jorge Verstrynge, the party's 38-year-old secretary-general, a one-time protégé and heir apparent. He had put Mr Fraga's name forward as candidate to the mayor of Madrid. Mr Fraga obviously saw it as an attempt to put him out to pasture. The offending dauphin then noisily left the party with three other members of parliament. Mr Fraga's seats were down to 80.

To rub salt in the wound, there followed a crisis in the Alianza Popular Government in Galicia, the north-western region which is Fraga's home ground.

While rumours abound, Mr Fraga is still fighting denying there is any crisis and refusing to let the party "lie fallow for any opportunist."

A new alternative centre-right formation, the Partido Popular (PP), launched by Mr Miguel Bóca, a leading Catalan nationalist politician, proved to be an unprecedented success. It drew in support from such figures as Mr Valery Giscard d'Estaing and Mr David Steel and Pfi 600m in bank loans. But it got no seats. One went to an allied party in Galicia, but that party has since quarrelled and split in two.

Mr Adolfo Suarez, the former prime minister, who made a triumphant comeback with his CDS party in June, meanwhile remains something of an enigma. His long periods of silence succeeded in making a contrast with the noise of scuffling going on in other parties. But with 19 seats in Congress, the CDS is very much a one-man show, a curious combination of progressive-left and centre-right.

Bigger worries for the Socialists come from Catalonia and the Basque country, where the divide is not just between Left and Right but also between regionalist and national parties. Both have up to now had centre-right governing parties, but both regions voted "no" in the Nato referendum to spite Madrid.

In Catalonia, where the Left had a clear majority in the first years of the transition, they have lost ground, even though they come first there in national elections.

In the Basque country, where the situation is more radical, the Left favours more complete home rule, the Socialists have found it even more difficult to gain credibility outside the immigrant "worker" population.

David White



Reginald Bartholomew, the new US ambassador to Spain, leads the negotiating delegation about US bases.

December, Mr Gonzalez warned the US administration that they would have to accept some run-down in the American military presence if he was to have a chance of winning the coming Nato referendum. Accordingly,

Continued on Page 3

Relations with US

Anxiety on both sides

THAT PERCEPTIONS are sometimes as important as realities in international relations may be now be commonplace, but nowhere is it more apt than in the complex and often uneasy relationship between Spain and the US.

Spain itself is numerically not well represented among the ethnic minorities of the US even if Spanish speakers from former Spanish colonies are there in no Spanish lobby as there are Irish, Greek or Israeli interest groups working on behalf of their kindfolk. Moreover, while other European nations were either allied to, or liberated by the Americans, Spain's neutrality in both World Wars precluded the development of the reservoir of popular goodwill to America evident elsewhere.

Indeed, a post-war generation of Spaniards grew up perceiving the US as preeminently the power that had underpinned the Franco regime, and con-

firmed it in power in 1953 by signing the vital defence pact which gave the US access to Spanish bases. Since Franco's demise both left-wing and traditional nationalist elements have sporadically opposed US policies, especially in Latin America.

Anti-Americanism, as well as traditional Spanish neutralism, surfaced sharply during President Reagan's visit to Spain last year, and again during the campaign leading to the referendum in March this year on Spain's continuing membership of Nato. Had the country voted to leave the alliance, it would paradoxically have been thrown back into its solitary embrace with the US, from which it had emerged on joining Nato in 1982.

The narrow (52 per cent) vote for membership was a considerable relief not only to Washington and other Nato capitals, but to Spain's Socialist Prime

Minister, Mr Felipe Gonzalez, who had been forced into the referendum to assuage strong anti-Nato sentiment within the party.

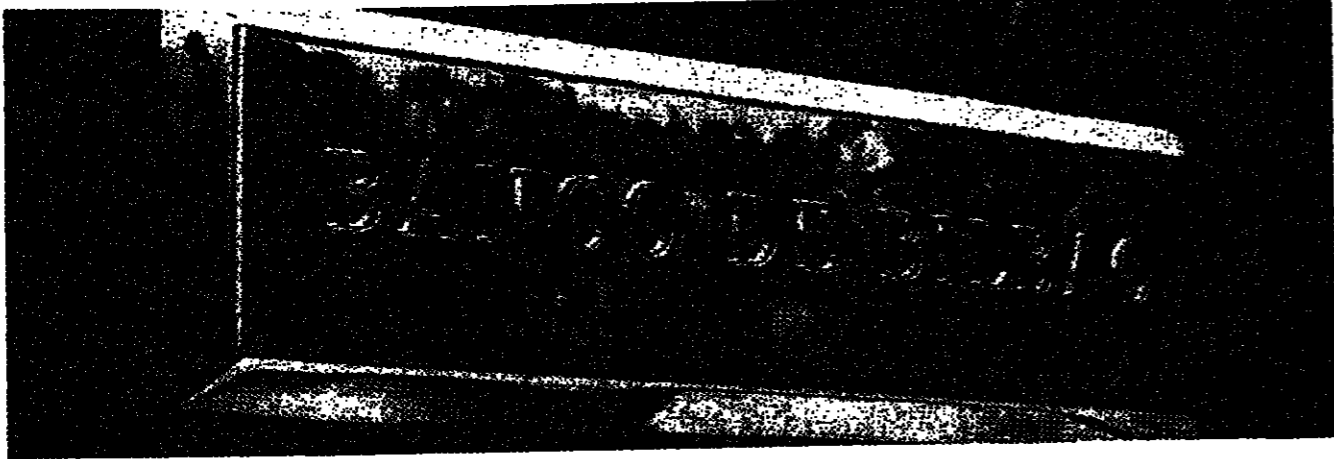
But his triumph was far from complete. In order to win over Nato-doubters he had been forced to promise to negotiate a reduction in the US military presence in Spain, to keep Spain out of the alliance's integrated military command structure, and continue denying the US the right to deploy nuclear weapons on Spanish territory.

Under the first heading the most recent US-Spanish agreement, signed in 1982, already circumscribes US use of the four main bases (Rota, Torrejon, Zaragoza and Moron), but since it also provides for \$400m of military credits per annum, there is little likelihood of a drastic diminution in the US presence.

Nevertheless, critical public opinion cannot be ignored. Last

December, Mr Gonzalez warned the US administration that they would have to accept some run-down in the American military presence if he was to have a chance of winning the coming Nato referendum. Accordingly,

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Vertical text on the right edge of the page, including 'Economic' and 'Movers to great liberalis'.

Spain 3

Economy

Moves towards greater liberalisation

THE HEALTH of the economy is mixed. The balance of payments is in good shape, foreign exchange reserves stand at a record level of over \$17bn, and investment is up 7.5 per cent this year.

But unemployment—the highest in Europe as a proportion of the available workforce—remains intractable at between 21 and 22 per cent. Inflation is also well above the European average and shows signs of rising further, while the public deficit remains a powerful constraint on growth.

Spain's economic performance this year has been influenced first and foremost by the initial impact of joining the European Economic Community, along with its neighbour Portugal, on January 1. This has provided the expected stimulus to foreign investment in Spain but it has also added to inflation through the advent of Value Added Tax, which it was necessary to adopt as a condition of entry.

More ominously, perhaps, EEC entry has turned Spain's former trade surplus with the Community into a sizeable and growing deficit. While the lowering of high Spanish tariffs has greatly eased access for imports, this upsurge has not been balanced by anything like a concomitant in exports.

More favourable factors influencing performance include a steady improvement in domestic demand and, crucially, lower oil prices, which have helped to contain inflation and the public deficit and encouraged the Government to revise its growth target from 2.5 to 3 per cent.

The Government's aim this year was to stimulate a modest economic recovery that would reduce unemployment without veering from the objectives of its stabilisation programme. Accordingly, the disturbingly high public deficit was targeted to fall to 4.5 per cent of Gross National Product and inflation to fall to 8 per cent by the end of the year—despite the negative impact of VAT.

For money supply the growth target was reduced from 13 to 11 per cent, but the Government was resigned to wages rising slightly more than last year in line with expected cost-of-living rises.

How far have these objectives been met? By the end of August the public deficit was 18 per cent lower than in the same period in 1985, due mainly to the savings from cheaper oil and increased revenues from VAT. The deficit has been keeping interest rates high, hampering investment and job-creation. The latest trends of public sector borrowing, however, make it far from certain that the end-of-year target of 4.5 per cent of GDP will be met.

The Government hopes to reduce the deficit next year to 4 per cent of GDP, but it is likely to be constrained by the high spending of some state enterprises and the continuing large outlays on social security.

Another major government priority, curbing inflation, has been adversely affected not only by the introduction of VAT but by an unexpectedly sharp rise (13.4 per cent) in food prices. By the end of October the year-on-year inflation rate was running at 9.5 per cent, after jumping 1.1 per cent in September alone.

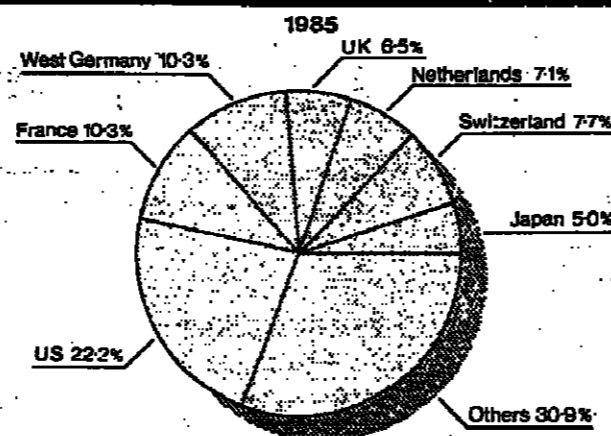
The Economy Minister, Mr Carlos Solchaga, has rejected the idea of a managed depreciation of the peseta, but has liberalised a number of agricultural imports in an effort to bring down costs and prices. Meanwhile, the all-important inflation disparity between Spain and its EEC partners has widened alarmingly, reducing the competitiveness of Spanish exports and the chances of stemming the deepening trade deficit with the rest of the Community. The EEC takes over 60 per cent of Spain's exports and provides almost half its imports.

The peseta has generally held fairly steady against other EEC currencies this year, but given the faster growth of Spanish costs and prices it has appreciated in value in real terms.

Some economists foresee the Government effecting a managed depreciation of the peseta early next year through Central Bank selling, but that would have to be contingent on lower inflation in the meantime. The business lobby, the CEOE, nevertheless feels strongly that the healthy balance of payments, particularly in invisibles and on capital account, gives hope for some devaluation which they would greatly boost export competitiveness.

But the Government remains committed to a stable exchange rate. For the Secretary of State for the Economy, Mr Miguel Angel Fernandez Ordóñez, it is an essential element in the anti-inflation programme, together with the removal of protectionist barriers and, crucially, the control of wages through an agreement with the unions.

FOREIGN INVESTMENT



The Government has, however, had to revise its 1987 inflation-reduction target from 4 to 5 per cent, to gain union backing for its inflation-linked wage moderation plan. The unions regarded 4 per cent as unrealistic. Even so, the Government optimistically expects to see inflation down, by 1988, to around the present European level of 3 per cent.

If it succeeds, says Mr Fernandez Ordóñez, Spain would then consider joining the European Monetary System.

The closely-related exercise of controlling the money supply has met with marginally more success. After rising in the first part of the year, by early September it was within the 11 per cent growth target as a result of the Government's tighter interest rate policy.

Improved money supply figures, and the stable outlook then led to a slight fall in inter-bank interest rates, but in October public sector financing needs once again boosted the money supply, taking it slightly over target. Private sector demand for credit remains relatively weak, however, and the Central Bank does not expect interest rates to rise in the immediate future. The Government is aiming to bring money supply growth down to 8 per cent next year.

The expansionary effect which the substantial inflow of funds from Spain's payments surplus might have had on the authorities' monetary control calculations has been largely offset by early repayment of foreign loans. Total private and public sector debt fell from its 1984 peak of almost \$31bn to \$28bn by September and the authorities hope to see it fall to \$24bn by the year end.

Similarly, the strong inflow of investment funds from abroad, attracted partly by a booming stock market, has also led the authorities to take countervailing measures. To head off excessive domestic monetary growth, the Government is now allowing Spanish residents to buy shares on foreign stock markets.

Although Spain has until 1990 to adopt EEC rules on the free circulation of capital, the Government is moving prematurely because it also fears the competitive effects of a stronger peseta that would result from excessive capital inflows.

On the wages front negotiated settlements had led to a general rise of around 8 per cent by September, slightly higher—as expected—than last year. The trend is expected to continue to the end of the year.

Domestic demand, from both consumption and investment, remains the main stimulus to growth, which is now expected to finish up between 2.5 and 3 per cent this year. The economy is being led by lower interest rates, an improvement in corporate profits, foreign investment and a degree of restocking.

But the relative improvement in economic growth is unlikely to make a serious dent in unemployment, which is increasing at a faster rate than last year. Though new jobs are being created the problem remains essentially unsolved. Youth unemployment, in particular, is likely to worsen as the effects of the baby boom of the 1960s make themselves felt.

Labour mobility is not helped by protectionist housing legislation which discourages people from moving to places where jobs may be available but housing costs more. Home ownership is far more widespread in Spain than is generally realised.

Last year the Government introduced liberalised rent controls in an attempt to loosen some rigidities. Similar moves are being made right across the economy, especially in the labour and capital markets.

Indeed, if the Socialist Government's economic policy has a leitmotif, it is market liberalisation and deregulation as a means of achieving the flexibility and productive efficiency the country needs if it is to respond successfully to the challenge of European Community membership.

David Rudnick

Basic data

	1981	1982	1983	1984	1985	1986
Real GDP growth (% from previous year)	0.3	1.0	2.5	2.3	2.1	3.0*
Inflation (%)	14.6	14.4	12.2	11.8	8.8	9.3†
Current account balance (US\$bn)	-4.999	-4.245	-2.746	+2.008	+3.022	+4.4‡
Exchange rate: Peseta v. US\$ (annual average)	92.32	109.86	143.43	160.76	170.04	138.1§
Public deficit as % of GDP	3.0	5.3	5.3	5.0	6.2	4.5*
Investment as % of GDP	20.3	19.7	18.8	20.0	20.3	21.0†

* Projection. † October. ‡ September. § November 7. ¶ Projection based on 3 per cent GDP growth, and investment growth of 7 per cent.

Anxiety felt on both sides

Continued from Page 2

the two governments at length agreed on adjustments "aimed at the phased reduction of the US military presence in Spain, based on the assumption by the Spanish armed forces of increasing responsibilities and level of security for both countries and their allies."

As a "first step in the fulfilment of its commitment" the US announced it was reducing 10 per cent of its military service

personnel at the most politically sensitive base of Torrejón, substituting (mainly Spanish) civilian personnel. Because of its proximity to Madrid, Torrejón has frequently been a target for left-wing protest marches. Spanish reaction was that this amounted to little more than a cosmetic gesture.

So far two rounds of negotiations on US troop reductions have taken place since last December's preliminary accord. While officials decline to reveal any details, it appears

that disagreement now hinges on the two sides' different interpretations of "reductions."

The US insists that any reduction in its troop levels or installations must be matched by an increased Spanish role to maintain "the overall capabilities and security for both countries and their allies."

The Spaniards counter by stressing they have no wish to destabilise the overall level of western security and rebutting the implication that its maintenance depends on their exact substitution of "a plane for a plane, soldier for a soldier."

Modern military technology, they argue, would allow the Americans to transfer some of their roles and missions to other allied countries, where the populace has expressed fewer inhibitions about the size of their military presence. (There are about 14,000 US servicemen and dependants in Spain.)

A broad spectrum of Spanish opinion also thinks the Americans are using their Spanish bases for purposes other than the NATO mission of safeguarding the alliance's southern flank and providing in-depth support for the central front.

There is widespread suspicion that the bases also serve purely American national interests, particularly in the Middle East where Spain has no wish to see her relations compromised by US actions.

The Torrejón air base in particular, with its long runway, offers important staging facilities for big US transport aircraft in the event of a crisis in the eastern Mediterranean. With or without its use in last April's US air raid on Libya, it was singularly fortuitous for Mr Gonzalez and Nato interests generally that the raid took place just a month after, rather than before, the referendum on membership.

The US side has anxieties of its own. The negotiating delegation is led by the new ambassador to Madrid, Mr Reginald Bartholomew, who successfully negotiated the renewal of US bases in Greece despite the difficulties posed by the premier, Mr Papandreu.

In the present negotiations

with Spain, Mr Bartholomew will be anxious to avoid creating any precedent which could affect the status of US installations in Greece or Turkey.

On the question of Spain's integration or otherwise into Nato's military command structure, the Government has been embarrassed by the disclosure of a confidential memorandum which it submitted to alliance headquarters in Brussels, stating that Spain was ready to negotiate new agreements on military co-ordination and participation in joint Nato planning.

Although the Government has presented its position as modelled on that of France, its proposals would give Spain a much closer relationship with the alliance. Unlike France, Spain is already a member of Nato's military committee, defence planning group and nuclear planning group (NPG), in which latter body she has upgraded her representation from ambassadorial to ministerial level.

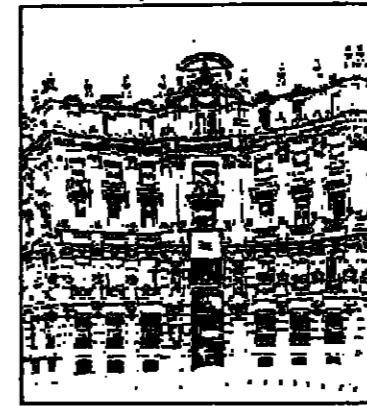
The Spanish Defence Minister, Mr Narcis Serra, sees no inconsistency in Spain belonging to the NPG while formally eschewing co-operation in the alliance's integrated command structure and refusing to harbour US nuclear weapons. He describes the Spanish position as "very similar" to that held by other Nato powers like Canada and the Scandinavians.

The US looms large in Spain's economic life as a trading partner and source of investment. US corporations provide jobs and the modern management methods which Spain needs to survive in the more competitive climate of the European Community.

Since joining the EEC and Nato, Spain has gone a long way to regularise its political relationship with the US, and place it on a level more akin to that of other western social democracies. Mr Gonzalez used a revealing metaphor when, in an address to the Trilateral Commission earlier this year, he spoke of Europe as constituting "the parliamentary opposition" in the western alliance.

David Rudnick

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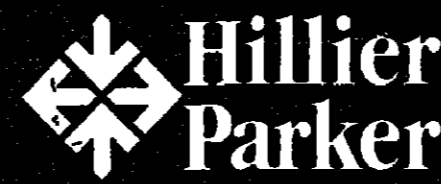
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David Rudnick

Spain 4

Trade

Patterns start to change

LESS than a year has elapsed since Spain joined the European Economic Community but already a change in trading patterns is evident.

Imports from within the EEC now represent 48 per cent of the total, compared with 35 per cent last year, while other Community countries take 61 per cent of Spanish exports against 50 per cent last year when Spain was still on the outside.

Since the first tariff reductions in March, West Germany has supplanted the US as Spain's leading supplier, increasing its sales by a third and its market share by almost half.

Most of Spain's new EEC partners have increased their exports. Portugal's are up by 22 per cent, partly as a result of companies using it as a "back door" for sending products tariff-free to Spain. (Portugal was formerly a member of the European Free Trade Association whereas Spain was not.) UK exports have so far benefited least from Spain's EEC membership.

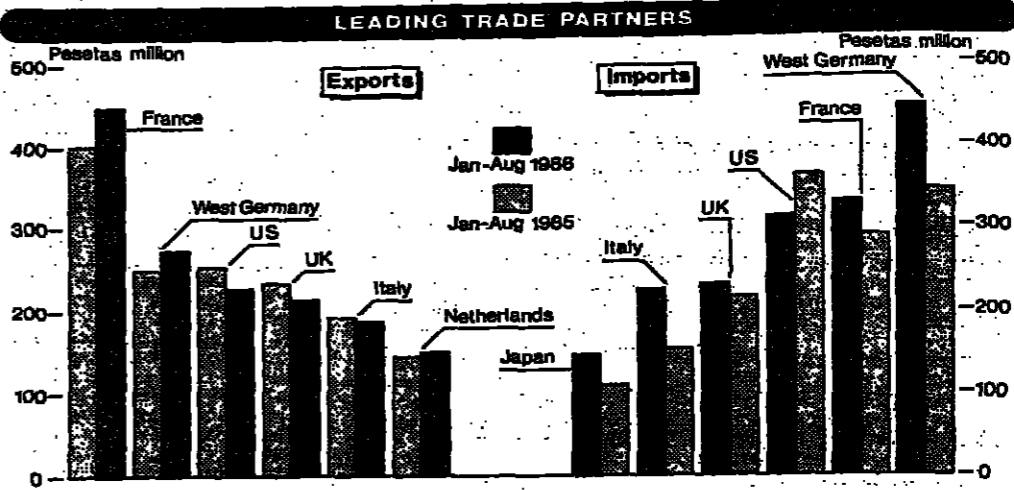
In the other direction, Spain has increased its exports to most other EEC countries but especially to France, which has extended its lead as Spain's biggest export market. Only the UK and Italy have so far taken fewer Spanish exports than a year ago.

The trade surplus which Spain formerly enjoyed with the EEC disappeared in May, to be replaced by regular monthly deficits. Whereas in the first three quarters of 1985 Spain ran a surplus with the Community of over Pta 200bn, in the same period of this year she ran a deficit of nearly Pta 47bn.

Looked at another way, in the first nine months of membership Spanish exports to other EEC countries rose 23.8 per cent, while imports rose 25.8 per cent.

The turnaround was widely expected, however. Since Spain already sent half of its exports to the EEC before she entered, and the tariff on Spanish goods entering the Community were already low (around 3 per cent), there was little prospect of spectacular gains arising from better export conditions.

On the other hand, Spanish producers now find themselves faced with much stiffer import competition as Spain's formerly high tariffs start to come down. Tariff reduction shows signs of bearing especially on the previously highly-protected sectors



like the car industry. The normal tariff was reduced this year from 36.5 per cent to 22.5 per cent as a first step towards its total elimination in six years' time.

Together with substantial quota increases, the change brought a volume increase of almost 50 per cent in imports in the first half of the year alone. Spain's inability, at least in the short run, to offset the surge in imports with greater access to Community markets could give the trade deficit a long-term character.

Here it must be said that Spain's overall current external account is comfortably in surplus, buoyed up by lower oil and commodity prices, tourist and investment income, and the peseta's rise against the dollar (25 per cent over the past 18 months), in which currency Spain pays for 60-65 per cent of her imports.

The current account registered a surplus of \$4.8bn in the first three quarters of this year, 20 per cent up on the same period of last year. The IMF estimates that the surplus could reach \$5.8bn for 1986 as a whole.

It may be significant, however, that in the first nine months of this year non-energy imports were 13.9 per cent up on the same period of 1985, while total exports fell 6.3 per cent. The IMF is forecasting a significant fall in the surplus next year, and its disappearance thereafter, because of Spain's deteriorating pattern of trade within the EEC.

The Socialist Government recognises that Spain faces a problem of inadequate competitiveness and productivity in adapting to EEC membership and it rejects "quick fix" solutions like peseta devaluation to solve a long-term problem. Indeed, the Secretary of State for the Economy, Mr Miguel Angel Fernandez Ordinez, regards defence of the peseta, in pursuance of price stability, as a definite policy objective.

The Trade Secretary Mr Luis Velasco expressed a consensus view in seeing the key task as the reduction of the high inflation rate. With Spanish inflation at 8.3 per cent remaining obstinately much higher than in other Community countries the key to boosting export competitiveness is seen to lie in implementing effective anti-inflation measures.

In October the Government announced a series of uncheduled tariff cuts for food imports, notably on the EEC's soft wheat surplus, in an effort to control sharply rising food prices.

The imposition of value added tax, which Spain had to adopt as a condition of EEC entry, and abolition of the tax rebate previously offered to exporters, are frequent objects of complaint by Spanish businessmen. The Confederation of Spanish Business Organisations (CEOE) regard it as particularly unfair that their members should have to pay much larger social security contributions than their foreign competitors.

It is generally recognised that a more concerted export drive and a stronger government campaign to promote overseas sales are needed. The Institute for the Promotion of Exports (INFE) was recently set up to finance consortia of smaller and medium-sized companies which co-operate to export common products. INFE's budget, at around Pta 7.5bn, is small compared with that of its competitors, and the CEOE would like the government to devote 1 per cent of total export income to export promotion.

This would give INFE four or five times its present budget, though CEOE estimates that the exchequer could find this money at no net loss to revenue by using the sums it is saving from the abolition of export tax relief. But the Government, according to CEOE, plans to increase INFE's budget next year by only one-third to around Pta 10bn.

European Community sources say they find INFE remarkably efficient and unbureaucratic by Spanish standards.

But others take the view that spending more on promotion cannot begin to offset the loss in competitiveness occasioned by the new tax regime. Prof Francisco Granell, of the Barcelona Chamber of Commerce, estimates that the abolition of the export tax rebate is costing exporters a total Pta 150bn, or 20 times INFE's annual budget.

David Rudnick

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Property

Sharp demand for office space

IN SEPTEMBER Heron International, the UK-based property and financial services group, became ninth competing companies to acquire Inmobiliaria Reunidas, which formerly belonged to Rumasa, the private holding which was expropriated by the state in 1983, when it was allegedly bankrupt.

Two months later a Swiss group that had narrowly lost to Heron, bought the main Madrid offices of Banco de Santander. It was the costliest purchase by far of a single building in Spain and one of the most expensive in Europe.

Heron ended up paying \$78m for its acquisition, which comprised some 200 mainly small office premises scattered around Spain and one, the twin towers known as the Torres de Jerez, occupies a prime site on Madrid's main boulevard, El Paseo de la Castellana. The price paid for the Torres, which could not be acquired separately, was \$30m.

The acquisition included an agreement by the company to invest a further \$222m in Spanish real estate over the next few years. This is unlikely to be a burden for Heron. As Heron said at the time of the Inmobiliaria Reunidas acquisition, there are now "unique opportunities" to buy into office rental space, which is "much in demand following Spain's entry into the EEC."

Heron already owns an office block on the Paseo de la Castellana and the price per square metre on the boulevard has risen from Pta 1,600 at the end of 1984 to Pta 1,800 at the end of last year. Last June the square metre stood at Pta 2,200 and in November it was up to Pta 2,300.

The Swiss rivals for the Torres de Jerez paid \$76.3m for the Banco de Santander building, which is also on the Paseo de la Castellana. The premises comprise 98,000 sq m, of which 25,000 are available for office space.

The new proprietors, who include the watch manufacturer Mr Pierre Blum and the property developer Mr Michael Turin, agreed to have Banco de Santander stay on as tenants for at least three years and not more than five, while the bank's new premises, a smaller 100-year-old building on the same boulevard, is refurbished.

While the September and the November deals were being negotiated giant excavators and cranes were at work, once more on the Paseo de la Castellana and close to the Santander building, on a development that symbolised more than anything else the property boom in the Spanish capital.

The new landmark on the Madrid skyline will be a 45-storey office block, with 87,000 sq m of available space, called the Torre de Picasso.

This exceedingly tall building represents an investment of more than \$90m at present and it is scheduled to be completed early in 1988.

Property-watchers in Madrid say, however, that the Torre de Picasso's owners, Portland-Valderrivas, a subsidiary of the UK cement company which has the controlling interest, and Explosivos Rio Tinto and Banco Zaragozano, are speeding up the work on the site and that it could be ready for use before the end of 1988.

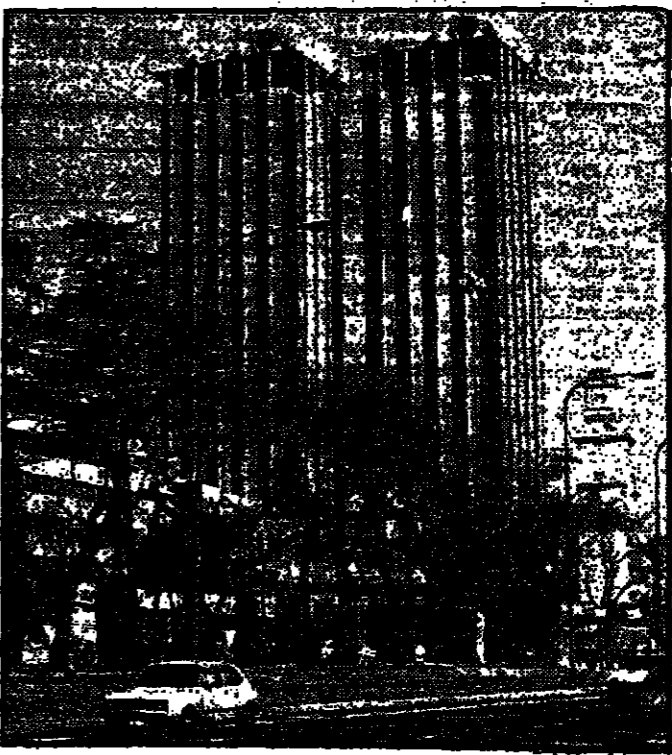
The survey reflects the extraordinary and growing demand for office space. Over the next two and a half years some 175,000 sq metres of office space will be coming on to the market in Madrid, with the Torre de Picasso accounting for half the amount. Property experts say that at least 250,000 sq metres' worth could be taken up during that period if it were available.

The present vacancy factor of some 48,000 sq metres of office space currently available for sale or letting in Madrid is only 1.55 per cent.

But the real indicator that the face of the Madrid property market is an ambitious plan, unveiled this year, to build a big trade fair centre, to be called the Campo de las Naciones, on the outskirts near the international airport.

Work began in October on the exhibition and conference complex which will cover an area of 4.3m sq metres. The initial infrastructure outlay of just over \$70m has been put up by the Government, the Madrid City Council, the Madrid area regional government, the local chamber of commerce and the Madrid Caja de Ahorros savings bank.

The first phase of the complex is due to be completed by 1988. The Spanish Government and the other investors behind the Campo de las Naciones have decisively betted on the continued growth of Madrid and are determined to build facilities that will rival those found elsewhere in the EEC. Over the past four years the space available



The Rumasa towers at Plaza Colón in Madrid

for trade fairs in Madrid has nearly doubled to total 210,000 sq metres and visitors to Madrid exhibitions have increased from 800,000 to 2m.

To judge by the property deals

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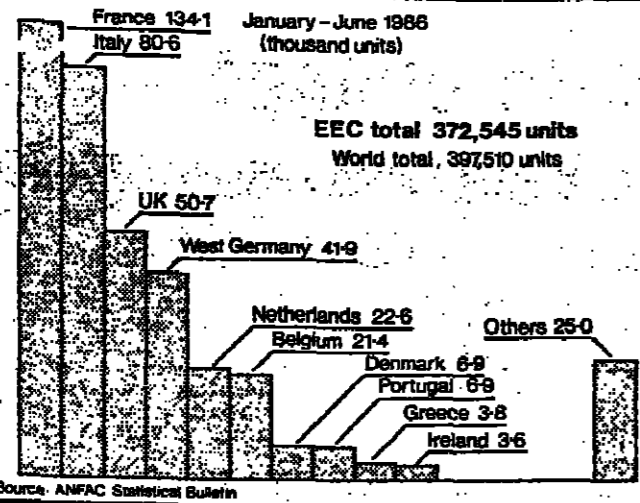
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SPANISH CAR EXPORTS



The Unions Conflict looms on government labour reforms

UNION membership in Spain is now low and falling. An International Labour Organisation report four years ago estimated it at no more than 17-25 per cent of the workforce.

When the last union elections were held, also four years ago, 36.6 per cent of the elected shop floor delegates belonged to the Socialist-led Union General de Trabajadores (UGT), while 33.4 per cent represented the Communist-led Comisiones Obreras (CO). The remainder belonged to various minority and regional groups.

In the Basque region, however, the local union (Euzko STV) remains stronger than either of the two main national unions, though for historical reasons it is closer to the UGT.

The CO is more tightly organised than the UGT and less open to the charge of collaborating with, or even selling out to, the present Socialist government. UGT, on the other hand, benefits from more international recognition; it belongs to the European Trade Union Confederation which the CO would like to join.

The UGT generally attracts more members employed in the service sector, and it has recently made advances in big foreign-owned factories like Ford. The CO draws most of its strength from the older manufacturing and heavy industrial sectors.

Both Socialist and Communist-led federations accept Spanish membership of the European Community and both fervently welcome foreign investment.

Several reasons are adduced for the low level of union membership. The Labour and Social Security Minister, Mr Manuel Chavez, previously a senior UGT leader, believes that only a decade after the end of Francoism the workers have apparently not yet acquired the habit of participation in democratic trade unions.

The veteran general secretary of the CO, Mr Mariano Camacho, blames it all on unemployment, at officially just under 22 per cent, one of the highest rates in the OECD.

Another reason may well be the prevalence of undeclared jobs in the black economy. The Economy Minister, Mr Carlos Solchaga, recently raised a political storm by suggesting that the real unemployment rate was nearer 15 per cent.

The main trade unions are none the less a force to be reckoned with and their intense rivalry can lead to a degree of competitive militancy in formulating demands, with the UGT anxious to disprove the perennial charge that it meekly adheres to the Socialist Government and its rigorous economic policies.

The UGT's actions over the past year are certainly not those of a Government poodle. It forced the Government to meet its objections and amend an important new pensions law. Then, entirely against Government policy, it campaigned for a "no" vote in Spain's National membership referendum last March.

Most recently, and importantly, the UGT has forced the Government to revise its 4 per cent inflation target for next year to 5 per cent as a condition for its continuing support for an inflation-linked wage-moderation accord.

For the past two years the UGT has backed this tripartite income policy, agreed with the Government and the CEOE employers' organisation. Under it wage limits have been set in exchange for promises of public investment and other employ-

ment-boosting measures. The agreement expires at the end of the year but negotiations on its renewal have been held up because of the rivalry between the two big union groups as they again fight nationwide elections to choose shop-floor delegates.

These latest elections, which began on October 1 and finish at the end of the year, are expected to confirm, and probably enhance, the UGT's advantage over the Communist-led CO. But until the full results are known little progress on the renewal of the tripartite incomes policy can be expected.

The CO declined to join in the labour pact two years ago, leaving the UGT as the only signatory. UGT leaders say they would welcome CO participation in a new agreement and in September the Economy Minister discussed the possibilities with Mr Camacho.

If the union election results indicate popular endorsement of the UGT's collaborative policy the CO leader may well deem the time ripe to associate his federation with it.

Mr Chavez, the Labour Minister, says the Government would like to see the CO "come on board," but he does not believe it is likely to happen. He fears that union demands for wages in excess of the forecast 5 per cent, inflation rate, might erode Spain's competitive position in the EEC next year.

Meanwhile, the strongest focus of incipient conflict between the Government and the unions lies in the field of labour market reforms. The notorious rigidity of Spain's hiring and firing laws, a legacy of the paternalism of the Franco régime, is widely seen (though not by the unions) as a key factor preventing labour mobility and job creation.

Flexibility is the current buzz-word. In 1984 the Government introduced a new type of fixed-term contract enabling companies to take on workers for a minimum of six months and, in case of termination, give them only 12 days' pay for each year of service. The Government claims that this reform, together with incentives for hiring young people, has helped to create more job opportunities and contain the rise in unemployment.

It is supported in its attempts at labour market reform by recent OECD and International Monetary Fund reports on Spain which singled out inflexibility as a prime constraint on both job creation and improved productivity.

The Government is now considering further reforms designed to liberalise the labour market. Chief among them are the proposed abolition of the statutory minimum wage for workers aged 18 to 24, the reduction of redundancy payments, the extension of short-term contracts, and removal of contractual obstacles to part-time employment.

The unions in general reject these proposed reforms, which they see as a thinly-disguised method of undermining job security and advancing the bogey of instant dismissal.

Mr Jose Maria Zufaur, a leading UGT official and publicist, regards labour market rigidities as merely the latest scapegoat for the country's economic ills.

If labour market rigidities really are so serious, asks Mr Zufaur, why are foreign companies continuing year after year to invest in Spain, their "low-wage Eldorado?"

But the unions' objections to labour market liberalisation are not likely to deter the Government from its chosen course.

David Rudnick

Motor industry

Domestic demand picks up in all sectors

THE MOTOR industry has played a key role in the growth and modernisation of Spain's economy since the early 1960s. Today, with annual output of cars and commercial vehicles touching 1.4m units, the Spanish motor industry is the fourth largest in Europe, behind West Germany, France and Italy, and the sixth largest in the world.

All the major European volume car makers, together with Ford and General Motors (GM) manufacture in Spain, attracted by still-competitive wage costs, its originally high tariff protection, and convenient situation as an exporting base. Exports account for 64 per cent of the industry's output.

The multinationals' strong export orientation has in recent years been encouraged by a relatively sluggish home market, but the most recent data from the Motor Industry Manufacturers' Association (Anifac) show internal demand picking up in all sectors except tractors and all-terrain vehicles (ATVs). Domestic producers' sales of cars—by far the dominant sector—grew by 7.4 per cent to August 1986 over the corresponding period of 1985, with GM showing the biggest increase (39 per cent), while Citroën's sales fell by 16.4 per cent.

The heavy truck sector, previously the most depressed, saw home sales rise by 32 per cent, with Motor Iberica (Nissan) showing the biggest increase (78 per cent).

The upswing in domestic

demand actually began in the last quarter of 1985, fuelled by buyers' eagerness to beat the introduction of value added tax, which Spain had to adopt on joining the European Economic Community at the start of this year.

The home market's continuing buoyancy may be partially due to continuing inflationary expectations, though most market observers do not expect it to last. For the moment domestic sales are uncharacteristically expanding much faster than exports, which stagnated (down 0.2 per cent in volume) between January and August.

Citroën again registered the biggest drop (26 per cent), but the other French producers, Fasa Renault and Citroën's related company Peugeot Talbot, increased their exports by 37.5 and 10.5 per cent respectively. Ford and GM remained static, but on an already high volume base.

GM is the biggest volume exporter with sales running at an annual rate of 220,000 cars, but in value added terms it could be Ford, since GM import their engines and transmission systems from their plants in Austria.

Car manufacturers tend to be bitter at what they see as a discriminatory VAT rate of 33 per cent, treating cars as luxury goods rather than consumer goods which only attract a 12 per cent rate. (Trucks and commercial vehicles come into this latter category.)

The three French car makers

are getting grants and loans totalling around \$58m towards restructuring their current multi-model operations.

But the biggest restructuring move came last June with the sale of the state-owned Seat concern to Volkswagen for \$560m. Seat had been sustaining heavy losses since the late 1970s—last year it lost \$35m—and the Government considered the investment needed to revive the company far beyond its resources.

Wherever justice lies, the Government is unlikely to yield to industry pressure to lower VAT since it needs all the revenue it can raise to cope with public deficit.

The EEC takes the bulk of Spain's car exports, but since Spain joined the Community imports have also shot up, to 60,000 units in the first half of 1986 from 37,000 units in the same period of 1985.

Imports, therefore, take up about 16 per cent of the Spanish market, and as tariffs come down under the terms of Spain's EEC accession treaty, imports from Community partners seem set to rise further. Some analysts expect import penetration to reach 20 to 25 per cent in seven years' time when tariffs on EEC imports are completely down.

To meet this new competition, the Spanish Government is taking steps to strengthen the industry. Ford and GM, already strongly geared to exports, do not feel seriously endangered by an import squeeze, but companies more dependent on the home market are receiving government aid.

The three French car makers national giants had fallen on the Spanish taxpayer. Now, with its sale to VW, the burden has been lifted, even if it has involved the taxpayer in a final outlay twice as high as the price paid by Volkswagen to put Seat's financial house in order.

Despite continuing losses, Seat's export performance is improving; in tandem with VW they have built a new dealership network abroad, and they expect to benefit from VW's enormous purchasing power when shopping for components.

Another troubled company, in the commercial vehicle sector, is Barcelona-based Motor Iberica, over 90 per cent owned by Nissan. The Japanese originally bought Massey Ferguson's 36 per cent stake in Motor Iberica in 1980, hoping to use Spain as a springboard to penetrate European markets otherwise closed off by quota restrictions.

But so far things have not quite worked out as planned; Spain's depressed light trucks sector disappointed hopes and necessitated successive injections of Nissan capital.

Mr Juan Echevarria, Motor Iberica's president, is confident however that 1986 will prove to have been a turning point; he is hopeful that losses will start to come down—to Pta 9.5bn from Pta 10.5bn last year, and that with short-term interest rates falling, financial charges will represent only 8 per cent rather than 9 per cent of sales.

By 1990, Mr Echevarria expects the company to be able

Market Share

Car Producers in Spain	Jan-Sept 1985	Jan-Sept 1986
Fasa Renault	31.2	27.8
Seat	11.7	12.3
Volkswagen	8.4	7.7
Ford	14.2	14.3
General Motors	11.7	12.2
Talbot Peugeot	12.1	11.6
Citroën	6.1	5.0
Others	4.2	6.3

Source: 1985 Government figures; 1986 ANFAC estimates.

to look after itself financially, though it will always remain technologically dependent on Nissan. Paradoxically for such a loss-making company, Motor Iberica enjoys a dominant market position: trucks 36 per cent (one million units), commercial vehicles 50 per cent, four-wheel drive vehicles 56 per cent.

Ford, celebrating ten years of business in Spain, is in mellow mood. Mr Patrick Byrne, managing director of operations in Spain, sees the company's main challenge as matching the cost efficiency of the Japanese. Though the company is one of the most profitable in the industry, he says that increasing competition, particularly now from imports, has "reduced the size of the cake, with more people competing for a piece."

Mr Byrne nevertheless confirmed that after an "alarmingly slow start" this year, the Spanish market has been growing faster since the second quarter. There would appear to be room for some optimism that demand in Spain has embarked on a sustained climb.

David Rudnick

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Spain 6

INI

Lame ducks come under fire

ALTHOUGH Spain is a nation of individuals—and many individuals—more and more examples of teamwork and game plans can now be observed.

The careers of Messrs Carlos Solchaga, Luis Carlos Croissier and Claudio Aranzadi—and the fortunes of the Instituto Nacional de Industria (INI), the sprawling public-sector holding company—are cases in point.

After four years each of the three men finally found his niche in recent months and the trio now represent the interlocking pieces of an administrative jigsaw puzzle—the role and the future strategy of INI.

The three agree that the public sector has a specific part to play in an economy such as that of Spain and they not only see eye-to-eye on what this should be but they also have the power to do something about it.

In 1982 Mr Solchaga, a socialist party stalwart, was appointed Minister of Industry in the incoming Socialist Administration. He in turn appointed another young socialist and economist, Mr Croissier, as his under-secretary and had Mr Aranzadi, another contemporary in his mid-thirties, nominally deputy chairman of INI.

Mr Solchaga had confidence in Mr Aranzadi who, while not a Socialist, had worked with him in the economic research department of Banco de Vizcaya. Both were premier talent-spotters. Mr Pedro de Toledo, who next month formally takes over as chairman of Banco de Vizcaya.

In 1984 Mr Solchaga managed to hand the INI chairmanship to Mr Croissier. INI's losses had

continued to climb under Mr Enrique Moysa, a veteran and well-connected Madrid businessman who was certainly not a Socialist and had been given the job in 1982 precisely because of that.

The new Government had been anxious at the time to still the fears of the business community with state appointments such as that of Mr Moysa. To the surprise of just about everybody except Mr Solchaga, Mr Aranzadi, who remained as INI's deputy chairman, and Mr Croissier, the new incumbent in the public sector but seat, a wholly new strategy began to evolve.

Companies in the INI group began to be sold to the private sector. Others were shut down and, in general, a ruthless attack was made on loss-making lame ducks.

In 1985 Mr Solchaga got the job he had long sought in what proved to be a tempestuous cabinet reshuffle (it was the only period when the Prime Minister, Mr Felipe Gonzalez, resignation He in turn appointed another young socialist and economist, Mr Croissier, as his under-secretary and had Mr Aranzadi, another contemporary in his mid-thirties, nominally deputy chairman of INI.

Mr Solchaga then took over as Minister of the Economy, the Exchequer and Trade, though he had to wait another full year before he was able to fit every piece into place.

The chance came after the June elections and his reappointment as the Government's economic supreme. Mr Croissier was then brought into the cabinet as Industry Minister and Mr Aranzadi was promoted to become INI's chairman. The team was at last complete.

It therefore comes as no surprise that the overall game plan is now being played to its limits. INI is answerable to the Industry Ministry, which is dependent on Mr Solchaga, who holds the purse strings. The public sector chairman, the Minister and the "Super Minister" know each other well and there is mutual trust and admiration.

In synthesis, the target is to turn INI into a dynamic industrial power house, promoting and stimulating here, consolidating there and setting an example everywhere.

INI, the creation of Franco's corporatist and autarchic economy, is an excellent experimental laboratory for modern-minded young Socialists like Mr Solchaga and Mr Croissier and for enthusiastic fellow-travellers like Mr Aranzadi.

These men believe in strategic, state-controlled industries but they also believe that they should pay their way.

But there is certainly not a Leftist antipathy towards private enterprise. If anything, there is a will to work with it. In those instances where private enterprise can improve on state control, INI gracefully bows out without the slightest regret.

This past year has afforded several clear examples of the strategy at work. Mr Croissier managed to fulfil his personal ambition, before leaving to join the Cabinet, of selling off Seat, the INI-owned car manufacturer, to Volkswagen of West Germany. In 1985 Seat had posted losses of Ptas 36bn.

There was no public outcry over the loss to foreign interests of Spain's only national car manufacturer. Along with sighs

of relief there was a calm and realistic acceptance of the fact the Spanish economy was simply not ready for such giddy industrial projects.

Mr Aranzadi has a list of strategic industries which he inherited from his predecessor. It includes defence systems, gas, ships, shipbuilding and steel production. A secondary list itemises sectors which are considered to have "growth" potential as well as strategic value.

The present chairman has also moved along the mixed company road.

Just as innovative was the decision in October to offer to private investors on the Madrid Stock Exchange a 38 per cent holding in Gersa, an INI-owned gas and electrical utility which has a successful business in the Balearic Islands.

This was very much a pilot scheme and the ensuing rush for shares prepared the way for future flotations of minority stakes in INI companies.

Mr Aranzadi meanwhile passed with great panache the "shoot down the lame ducks" test. In September he was totally dismissive of union requests that INI should take over Rio Tinto Minera, the Huelva-based copper mining concern which was threatened with closure by Rio Tinto Zinc.

Mr Croissier had previously set the test in 1984 when he forced through the closure of an INI integrated steel plant in Sagunto, near Valencia. Mr Solchaga had previously set the pace as Industry Minister when he began a determined nationalisation of the shipbuilding sector.

Tom Burns

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Technology

Ambitious goals are being set

SPAIN IS rushing to bridge the technology gap that separated her too long from post-Second World War Europe. Progress has already been remarkable for a country that 30 years ago was predominantly agricultural and poor, and that only set up a Research and Development in 1984, when emphasis had begun to shift from farming to manufacturing.

Rapid industrial development meant heavy reliance on imported technology. In 1973, companies paid out Ptas 8bn for technology imports and only managed technology exports of Ptas 213m.

In 1986, the emphasis is no longer on industrialisation wherever and however, but on modernisation, replacement of imported technology and development of Spanish technology.

The goals are ambitious. But European accession and the opportunities it offers for increased Spanish participation in multilateral and bilateral European technology projects have spurred the adoption of technology more co-ordinated and efficient, and companies to set up their own research and development programmes drawn up by science graduates from reformed universities, and on government funds to assist them with their programmes.

Dogged emphasis on technological innovation since the late 1970s has already permitted a growing number of Spanish enterprises to take part in major European programmes.

Whereas only a few years ago, no more than three Spanish concerns—Construcciones Aeronauticas, the huge aeronautical construction corporation, and two official institutions—were in a position to participate in the European Space Agency, today, 30 Spanish businesses are participating, contributing with hardware and software, composite materials and feasibility studies.

Spain has a strong presence in the Eureka programme, especially in medical research, working on automated diagnosis by sensors of cardiovascular problems and venereal disease, and on a calcium-inhibiting drug for patients with high blood pressure.

The 1983 University Reform Act that brought greater emphasis on R & D, and the 1986 Scientific Research and Development Law that permits smoother co-ordination of technology programmes and of co-operation between university and industry, are the linchpins of the new structure which, Spain's younger generation of officials and entrepreneurs believe, will move their country higher on the scale of

Projects approved

ACCORDING TO AUTONOMOUS COMMUNITY AND AREA

COMMUNITY	AA	BM	EI	EV	ME	ESA	TOTAL
Asturias	6	1	2	2	2	1	15
Aragon	4	3	2	3	4	1	17
Asturias	2	1	1	1	1	1	8
Castilla-La Mancha	1	1	1	1	1	1	6
Castilla-Leon	1	1	1	1	1	1	6
Cataluña	12	28	9	15	20	1	85
Extremadura	1	1	1	1	1	1	6
Galicia	5	2	1	1	2	1	12
Basque	1	1	1	1	1	1	6
Madrid	1	18	27	12	7	2	59
Murcia	1	1	1	1	1	1	6
Basque Country	1	1	2	1	1	1	7
Valencia	2	3	2	2	2	1	12
Total	39	51	41	41	41	3	216

Key: AA, Agro-Food; BM, Biotech, Medicine & Chemistry; EI, Electronics & Data; EV, Energy; ME, Mechanical & Manufacturing Processes; ESA, European Space Agency; AC, CDTI Contribution.

technical advancement.

Spending on R & D has leapt from a paltry 0.26 per cent of Gross Domestic Product in 1982, to 0.8 per cent this year. Next year the Ministry of Industry expects the ratio to reach 1 per cent of GDP—coming gradually closer to EEC averages of 2 per cent of GDP.

Spanish companies which devise their own research programmes can receive substantial government help.

While the Ministries of Education (instigating major changes in the Spanish university system) and Industry (co-ordinating and instigating the modernisation of Spanish industry from its bustling high-tech building in Madrid) oversee the major guidelines of technological innovation, working in an interministerial commission, the CDTI (Centro de Desarrollo Tecnológico y Industrial), formed in 1977 on the initiative of the World Bank, acts as the

filter through which projects, funds or venture capital flow in both directions, and co-ordinates Spain's participation in international projects like Eureka, Esprit, the European Space Agency, and Europolis, the European traffic control project.

In 1985, the CDTI channelled credit of Ptas 11bn (800m) to technology research and development programmes—the largest annual figure ever, and culmination of a two-year drive in which three times more money was spent on promoting R & D than in the first five years of the CDTI's existence.

The priorities for Spanish R & D are in agriculture and offshoots like production of algae, new techniques for marine resources, new food products, biotechnology and medicine, electronics and data processing, and manufacturing techniques.

Just as urgently, energy savings, in a country where energy is expensive and heavily reliant on imports, and protection of an environment that is seriously polluted in some industrialised areas, are receiving concerted attention.

Although precise figures are not available, it is known that Spanish industry in recent years, especially export-oriented companies, has been investing more in research, hiring more science graduates and accepting in growing numbers that without methodical investment in development of domestic technology, in new quality controls and modern manufacturing and data processing techniques, Spanish industry, which has an ambition to grow and prosper in Europe, will not be able to keep up the pace.

Diana Smith

Diana Smith

Farm Produce

Settling in with the EEC

ORANGES and lemons, satsumas and clementines will have completely free access to European Community markets only in 1990, according to Spain's Treaty of Accession.

This prospect does not please the citrus fruit growers of southern Spain, whose 1985-87 crop is likely to reach a record 3.79m tonnes—3 per cent more than last year—and who have had to accept restrictions on their exports to EEC countries until 1990 while non-EEC exporters from the Mediterranean that have long enjoyed access to EEC markets prepare for the future when Spain's transition has ended and it gains full EEC membership.

The irony of marking time for the benefit of non-EEC fruit and vegetable exporters is not lost on enterprising Spanish growers, who could turn suitable parts of the country into the out-of-season flower, plant and market garden of Europe.

"Joining the EEC is like moving into a new house," says Mr Maria Portera, secretary-general of the Confederation of Spanish Fruit Growers. "At first the rooms feel wrong and you can't find anything. Then you settle in. We will settle into the EEC and intend to make a good job of it."

The drive to improve produce and market it still more energetically under the new EEC canopy is manifest among Spain's more efficient farmers and their trade associations. About 17 per cent of the country's population is engaged in farming, though this figure may give a misleading picture.

From citrus to onions, lentils

to cut flowers, Spanish growers have been trying for greater volume and higher quality in areas where farming has graduated from subsistence level to a strong-market-oriented business.

While in Galicia 45 per cent of the active population still works in largely subsistence farming where adaptation to EEC standards, red tape and market organisation will be difficult for some years, in highly industrialised Catalonia only 3 per cent of the active population still farms.

These early months after accession to the EEC are not only strained by the Community's two-tier schedule for Spanish agriculture which obliges some of its best produce to be treated temporarily as third-country crops—they reflect the sudden, sharp impact of much-increased EEC agricultural imports into Spain.

By September, according to Agriculture Ministry figures, the farm trade deficit had reached \$237m compared with a deficit of only \$7m in September 1985.

The shortfall was caused not only by the annual fall in citrus exports at this time of year but by heavy increases in imports of cattle and animal products (meat, butter, cheese and hides).

Prices fell for key exports like flowers (down 14.2 per cent), fresh fruit, apart from citrus (down 18.2 per cent), and fresh vegetables (down 12 per cent).

Imports of livestock tripled compared with January, September 1985, imports of EEC

meat rose from 49,200 tonnes in January-September 1985 to 159,800 tonnes by September 1986.

Despite restrictions, citrus exports as a whole increased this year to 2,167,400 tonnes, compared with 1,828,000 tonnes last year—while the Spanish satsumas or clementines now on prominent display in London food shops are evidence of the growers' serious intentions.

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Spain 7

Small Businesses

Learning how to survive

JOINING THE Common Market is like opening a door and letting in an icy blast...

Obviously, you could shut the door again to keep out the cold air. But you could also be bolder...

There is no question of "slamming the door shut" against the European winds of change...

Spain's protectionist barriers are eroding and small and medium-sized businesses are struggling to meet the new, aggressive competition...

Rigid labour laws make it hard to move employees from one job to another inside a company without lengthy union negotiations...

rates of social security contributions put 65 per cent of the burden of social security financing on the employer...

High financing costs and kilometres of red tape—a heritage from the old, oppressively-protectionist economy—are other main obstacles to quick adjustment to new competitive pressures and management methods.

Stronger market forces and less Governmental weight are the ultimate goals of a small-to-medium business sector that employs 57.8 per cent of all Spanish workers...

The problem of bureaucracy in a nation where incentives and support go hand-in-hand with labyrinths of red tape...

Here and there steps have been taken to reduce bureaucracy or make it more comprehensible. In Madrid the local authorities have established the "single window"...

stamps and supplements can be handled in one place at one time.

In the Autonomous Communities, terminals of data banks and Advice Bureaux provide exhaustive (and to some businessmen, exhausting) information about legislation and procedures.

Despite the frustrations of many small-to-medium businessmen with excessive management costs and rigid labour laws, there is a constructive dialogue between business and Government...

Realistically recognising that Spain, to compete effectively, must move its products up-market and not down-market...

With state help for technological development, hiring designers and textile researchers, setting up laboratories, and improving production methods...

Next on the standard-raising agenda are furniture, footwear, jewellery and other accessories, largely made by small companies with a lot of creative energy but not always a strong sense of direction.

Going a step further and bringing Spanish small or medium businesses together with other EEC companies in a similar or complementary line, is slightly more difficult...

Spanish businessmen are not saying "mánnnn" about the problems of EEC accession that lie not only in sloughing off uncomfatable and antiquated legislation but also in adapting en masse to EEC standards of quality.

There are 400,000 such businesses in all the provinces of a country that has turned its back on Franco's attempts to homogenise its language, customs and attitudes.

The post-Franco autonomous communities have been drawn into the efforts to support and co-finance small business investment and strengthen a sector that aims to be a strong driving force in the economy and an important presence, within the EEC.

Diana Smith

Wine

No longer a 'plonk' image

DESPITE a growing acceptance of Rioja and one or two other still and sparkling wines, Spain has still not quite shaken off its old image as a producer of bulk rather than quality wine.

In line with its image as a cheap package holiday destination, its reputation as a supplier of cheap, cheerful, frankly down-market wine is somewhat unfairly persisting in the more quality-conscious 1980s.

But Spain is no longer a mass supplier of very cheap wine, the famous plonk (or "plunk" as the Spaniards say). The proportion of bottled wine with a controlled denomination of origin label and acid abroad is rising rapidly.

Even if Spanish wine is slowly starting to acquire a more respectable image, much promotional work still needs to be done to defend, and where possible advance, its share of foreign markets—particularly in the European Community where complete parity of trading is due in 1989.

The UK is easily Spain's biggest wine market, taking about 50 per cent of its exports, but over the past six years Spain's market share has halved, from 12 to 6 per cent, while those of France and West Germany have steadily advanced.

Belatedly, perhaps, the Spanish government and wine trade have begun to mount a more effective and co-ordinated publicity campaign. "Wines from Spain," the official promotional body that operates under the aegis of the National Institute for Export Promotion (INPE), is beginning to get realistic budget allocations.

The attack on the low-quality image originated in the UK, where "Wines from Spain" was first established in 1979. Its achievements in boosting export volume may not look particularly impressive so far, but

Sales of sherry

Table showing sales of sherry in bottles (m) for various countries: United Kingdom (64), The Netherlands (45), West Germany (39), Spain (26), US (15), Denmark (4), Belgium (2), Other markets (8). Total est. consumption: 190.

Source: Institute of Sherry Exporters.



Sherry-tasting at Jerez

expanding budgetary resources—€123m this calendar year and well over €2m scheduled for next year—are enabling it to make more impact.

Last summer €500,000 was spent on informing UK television viewers of the delights of lesser-known Spanish wines from Penedes and Navarre.

But these sums pale somewhat when compared with the amounts spent on sales promotion and advertising by some of the bigger bodegas on their own account.

In the fast-growing sparkling wine sector, (output up 50 per cent in the last five years) the market leaders Freixet and spelt €4m in the US alone last year, including €800,000 on a Christmas advertisement featuring Raquel Welch. Other expensive TV slots featured stars like Liza Minnelli and Plácido Domingo.

Backed by a strong distribution network, Freixet claims that it is already the biggest-selling brand in the US, which absorbs 60-70 per cent of its foreign sales.

Unlike some other Spanish exporters, Freixet says it has no "image" problem in North America. In 1984 the company acquired the Rumasa wine group to become the world's largest producer of "methode champenoise" sparkling wines. Last year, with sales worth

€81m, it opened wineries in Mexico and California and even took over a small winery in Champagne itself.

Codorniu, its Catalan neighbour and arch rival, is the other leading producer of sparkling wine, exporting two-thirds of its exports to the US market. Europe especially the UK, Belgium and, of course, France, it describes as a harder nut to crack.

Yet it expects the biggest market in Europe to be in the UK, where it has a strong distribution network. The US is naturally Codorniu's main target. After a period of retrenchment because of distribution problems, it plans to step up its marketing effort with a €2m pre-Christmas advertising campaign on radio.

Spanish sparkling wine producers are of course banned from selling their products as "champagne," a name jealously guarded by the French. By 1992 they will also have to drop the description "methode champenoise" from their labels. They have therefore eight years to promote "cava"—named from the cellars where the wines are produced and the cava word for "champagne-type" wine.

Until recently, the bulk of their production was sold in Spain, but the growing fashion for light and sparkling wines appears to be helping their penetration of foreign markets. Export sales have tripled over the past five years. But they will have to be extremely price competitive to combat the entrenched position and prestige of French champagne.

In still wines—still easily the largest sector—there are also concerns with a flair for marketing. One of them is Miguel Torres, Spain's largest independently-owned wine producer, based at Vilafranca in the hills of Penedes south-west of Barcelona. Its promotional activities centre on the strong personality of the chairman, Mr Miguel Torres, who has an energetic approach to marketing his products.

If any Spanish wines can claim to be the aristocrats they are some of the Riojas, named after the relatively unknown region in the upper Ebro valley. Between 25 and 30 per cent of Rioja's output is exported, a trade which in 1985 yielded Pt47.3bn according to the Rioja Exporters' Group.

The Americans drink markedly less Rioja—less indeed than the Dutch or the Danes. One reason is thought to be that US consumers—as well as some younger Europeans—prefer a lighter, fruitier wine. Partly in an effort to meet this demand, go-ahead bodegas like Campo Viejo (part of the nationwide Savin group) have turned increasingly to cultivating white

varieties while retaining its characteristic flavour.

This technique is said to reduce production costs, since the wine does not need to be aged in oak barrels as long as Rioja's were whites, but now the proportion is around 20 per cent. With Rioja prices high in Spain itself, Campo Viejo says export markets offer the widest scope for expansion; and over the next five years it plans to invest Pt450m in setting up an import and distribution network in the difficult US market.

Among fortified wines sherry is, of course, unique; but no survey of Spanish wines would be complete without it. Outside its native Andalusia, little sherry is drunk in Spain compared with the quantities consumed abroad.

It accounts for roughly 25 per cent of all Spanish wine exports, and retail sales worldwide are estimated to be about €500m a year (four times the free-on-board export value because of the high taxes levied on sherry sales). This total comprises: 40 per cent medium sherry, 35 per cent cream, 15 per cent fino and 10 per cent oloroso/amontillado.

World consumption, according to the Institute of Sherry Exporters, has risen from 24m bottles in 1950 to 190m bottles per annum today. Investment in export advertising totals over €30m per annum, more than for any other Spanish export product.

Yet behind these handsome figures all is not as well as it might seem. First, sherry is in danger of acquiring an image as an older person's drink. Young people are said to prefer long drinks to elegant, short aperitifs. Secondly, the sherry trade is worried that fashionable concern about health and diet and calorie intake, may be leading people of all ages to turn to lighter rather than fortified wines.

Since 1978-79 the sherry market has largely remained static "we are sailing through calm waters," said a spokesman for the Institute of Sherry Exporters. Seen against the perspective of the 7 per cent annual expansion between 1953 and 1978, perhaps some consolidation was inevitable. But even so the sherry companies admit the "very low" profit margins are causing concern.

For wines in general, Spanish membership of the European Economic Community does not look like making a substantial difference on the supply side. Producers are receiving guaranteed EEC prices—higher, of course, than Spain's—for the equivalent of only 27.5m hectolitres of table wine, a quota roughly equivalent to normal annual output.

The growing range of better-quality wines under the controlled denomination of origin label are not affected at all.

David Rudnick

Advertisement for BS GRUPO BANCO DE SANTANDER. Features a large image of a speedometer with 'BS' in the center. Text: 'DISCOVER THE SECRET COMBINATION TO THE SPANISH MARKET'. Includes contact information for Diana Smith.

Advertisement for SEAT Ibiza. Text: 'Most cars are built in the same mould. Then we built them into a car no mould could contain.' Features an image of a SEAT Ibiza car. Includes technical specifications and contact information for David Rudnick.

Advertisement for FOCOEX S.A., a leading Spanish trading company. Lists office locations in Hong Kong, Caracas, Bogota, Casablanca, and New York. Includes contact details for each location.

